The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 24th, 1939

VOLUME 106

INDEX

VOLUME 106 - July 24th, 1939 Page

WITNESS:

EXHIBITS

(R. R. Davidson, K. C., appeared for the Maple Leaf Petroleums, Limited.)

MR. FRAWLEY: Mr. Wallace.

WILLIAM FRANCIS WALLACE,

having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Wallace, you live in Calgary?

A I do sir.

Q And you are the Manager of Maple Leaf Petroleum , Limited?

A General Manager of the Maple Leaf Petroleum, Limited.

Q Is there any other company in existence in the petroleum industry under the name of the Maple Leaf?

A I believe there is a Maple Leaf Oils or something. We have sometimes got mail for them but I do not believe there is any connection.

Q With you?

A No.

Q The Maple Leaf Refining Company, have you any connection with them?

A They have gone out of business or are in the course of liquidation I understand.

Q The company of which you are General Manager is the Maple Leaf Petroleum, Limited?

A Right.

MR. FRAWLEY: I think I will let Mr. Davidson follow on from there.

Q MR. DAVIDSON: Mr. Wallace, how long have you been General Manager of Maple Leaf?

A Since April, 1937.

Q How long have you been associated with the company?

A 1933.

Q Prior to being General Manager you were----

A Sales Manager.

Q During the whole of the remainder of the period?

A No, I was tank car salesman in Saskatchewan for the Maple Leaf Petroleum, Limited, and then came up here as Sales Manager.

Q That is when they were in the refinery business?

A That is when they were operating the refinery at Coutts.

Q But in all the time you have been connected with the Maple Leaf Petroleum, Limited, you have been in the marketing department?

A I have.

Q Were you the Manager of the company when the company made its first agreement with the U. F. A. Central?

A No, I was not.

Q But you were with the company at that time and had some knowledge of the agreement?

A I knew there was an agreement negotiated, yes.

Q How many agreements in all has your company had with the U. F. A. Central Co-operative Association?

A Three.

MR. FRAWLEY: Exhibit "328", "329" and "330".

MR. DAVIDSON: Yes, I was going to submit now, not new Exhibits, but extra copies of these Exhibits that were marked the day that Mr. Halverson filed them and Mr. Wallace will submit three additional copies of each of the three agreements, Exhibit "328", "329" and "330", being the three agreements with the U. F. A.

MR. FRAWLEY: Dated respectively the 17th day of August, 1935----

THE CHAIRMAN: Just a minute, Mr. Frawley, we might number these first.

MR. DAVIDSON: They are marked right on them.

MR. FRAWLEY: Yes, Exhibit "328", "329" and "330".

MR. DAVIDSON: And the date is probably right on the label.

MR. FRAWLEY: Yes, that is right.

MR. DAVIDSON: I thought perhaps Mr. Wallace at first might go over that agreement, I mean not with the idea of submitting any figures at this stage because there will be a balance sheet later but just the general plan of operation under the agreement; there are three agreements, two of which are now a matter of history, they are not operative, and it occurred to me that probably the Commission would be more interested in the current agreement, unless you want him to go over all of them.

THE CHAIRMAN: The current agreement would be sufficient I think.

MR. FRAWLEY: Yes.

THE CHAIRMAN: There is no reason for them going back, Mr. Frawley.

MR. FRAWLEY: No.

MR. DAVIDSON: I should say the financial statement which will be submitted later is based on the middle agreement which is now not operative, because it was 1938, but we are now in 1939 operating under the last

agreement and I think that is the one that is probably the agreement which the Commission would like considered.

THE CHAIRMAN: If you are putting in a financial agreement for 1938 you would need to put in the 1938 agreement.

MR. DAVIDSON: The agreements are very similar.

THE CHAIRMAN: Have you got it.

MR. FRAWLEY: Oh yes, the whole three are in. Mr. Davidson is referring to Exhibit "329" as the 1938 agreement.

MR. DAVIDSON: But it is not the current agreement.

THE CHAIRMAN: I do not carry in my mind all of these 500 Exhibits you know.

MR. FRAWLEY: No.

THE CHAIRMAN: Exhibit "328" is the agreement.

MR. DAVIDSON: Exhibit "328" is the agreement made in August 1935 and was in force for two years.

THE CHAIRMAN: Now what agreement was in force in respect of which or at least during the period in respect of which your financial statement will be filed.

MR. DAVIDSON: The middle one, Exhibit "329".

THE CHAIRMAN: All right, so long as we know.

Q MR. DAVIDSON: Approximately what percent-

age of your volume of business, Mr. Wallace, is pertinent to your dealings with U. F. A. under this agreement?

A Last year about 90%.

Q And in a general way what makes up the remainder of your volume?

A It will show in this agreement, that the U. F. A. are excluded from any commissions being paid to them under business done in the Cities of Edmonton and Calgary, that we call "eliminated gallonage" or "direct gallonage", and then we also have a jobber business which we have been able to negotiate with two or three different jobbers.

Q You had better tell us who the contracts are with there?

A With the Gas and Oil Products and also with the Consumers Oil Company and a very little bit with the Artic Oil. I have not the price list of the Artic Oil with me but it is only illuminating kerosene we sell them but we do sell the Consumers Oil and the Gas and Oil Products.

Q If only 10% of your volume is made up of jobber business and direct business in Calgary and Edmonton, then you are not very extensively in the jobbing business?

A Oh I would not say so.

Q MR. FRAWLEY: In other words, it is all U. F. A. but Calgary and Edmonton and your couple of jobbers?

A Yes, that is right.

Q THE CHAIRMAN: Calgary and Edmonton retail?

A Everything, no, it is the service station business.

Q MR. FRAWLEY: Retail business?

A Yes.

MR. DAVIDSON: I think perhaps later in the

break-down all these things will show up. As a matter of fact it may be closer to 12%?

A If any outside farmers come to our plant in Calgary or Edmonton and we use them as a jobber and we pay the U. F. A.a commission on the farmer business out of those plants but we pay them no commission on gallonage sold in Calgary and Edmonton direct to the service stations or to commerical accounts.

Q MR. DAVIDSON: Now these agreements have been filed and mentioned a good many times and it is my idea that probably the agreements should be read over, if Mr. Wallace is going to discuss it intelligently, so as to give the Commission the kind of agreement it is and so on; in any event, Mr. Wallace, I would like you in your own way to tell us how this agreement operates and the principal characteristics of it?

THE CHAIRMAN: You are speaking of Exhibit "330" now?

MR. DAVIDSON: I think we will take Exhibit "330" the current agreement?

A Do you wish I shall read this over?

THE CHAIRMAN: Just as you think wise, Mr. Davidson.

Q MR. DAVIDSON: Well perhaps after all you had better read the agreement and explain it as you think it might need explanation or maybe there will become questions come up as you read it?

A "330"?

Q Exhibit "330"?

Q MAJOR LIPSETT: At the time of this agreement, Mr. Wallace, you had ceased to be a refiner at Coutts?

A No sir, it states that in the first agreement, that we have a refinery operating in Coutts, Alberta, "328".

Q And the same in "329"?

A The same in "329".

Q MR. DAVIDSON: Exhibit "328" and "329" recite in the very first sentence that the company owns and operates a refinery.

MAJOR LIPSETT: When you come to the "330".

MR. DAVIDSON: Then they no longer have a refinery and it says:

"Whereas the company is engaged in distribution of "petroleum products".

Q MR. DAVIDSON: Very well then?

A This contract that I am now going to read is for the years 1939, 1940 and 1941.

"This agreement made in duplicate the 30th day of "August A. D. 1938.

"B E T W E E N:

" MAPLE LEAF PETROLEUM LIMITED,
" a body corporate having its Head Office at Calgary, in the Province of Alberta, hereinafter called the
"
"COMPANY"
"
OF THE FIRST PART,
"
and
"
" THE U. F. A. CENTRAL CO-OPERATIVE ASSOCIATION LIMITED,
" a body corporate having its Head Office at the City of Calgary, in
" the Province of Alberta, hereinafter
" called the
"ASSOCIATION"
OF THE SECOND PART."

" WHEREAS the Company is engaged in the dis-
"tribution of petroleum products in the Province
"of Alberta and for the purpose thereof has
"established bulk stations at the points in the
"said Province enumerated in Schedule "A" to this
"Agreement.

Q MR. DAVIDSON: It might be as wise there to take a glance at the Schedule. There are quite a number of them, 34 I believe?

A 34, yes, 34 plants which we either owned or had leases on and I think Schedule "B" has about 59 that the Central U. F. A. Co-operative either owned or we had working agreements with.

Q MR. FRAWLEY: I wonder if the Commission, it surely does not matter to Mr. Wallace if we interrupt him from time to time, I would like Mr. Wallace to explain Schedule "A" and it is, by the way, it is Schedule "A" referred to in the agreement of April 28th, 1936 between the U. F. A. and the Maple Leaf?

A Yes.

Q Just what are those, how many are there?

A I think there are 34 on this one here, or 36----

Q MAJOR LIPSETT: 36 includes Edmonton and Calgary?

A Yes, we use them as a jobber.

Q MR. FRAWLEY: Now what, unless the agreement itself later on explains the specifications of the stations, but what are these 36 stations which are designated?

A Those are the stations that the Maple Leaf Petroleum owned

in a majority of cases and in one or two cases we leased some stations which we enumerate from the Imperial Oil, Limited, and other stations were privately owned like New Norway and Millet, were owned by individuals and we had them under a lease and we had working agreements with those stations prior to the taking up of the U. F. A. Central Co-operative contracts, we were operating them as agencies at that time, bulk stations.

Q MAJOR LIPSETT: In other words, Mr. Frawley, in the last agreement, although they are referred to as of October 1936, they are putting in two new stations, Wainwright and Wetaskiwin, which were not in the earlier agreements.

WITNESS: Wainwright should have been in, sir, because we had it, It is an old station of ours.

Q MR. DAVIDSON: Wetaskiwin is in the original one and Wainwright too but they are not in the same order apparently?

WITNESS: Wainwright is in there, yes, they are both in there in the Schedules of "320".

MR. DAVIDSON: Anyway the Schedule speaks for itself.

Q THE CHAIRMAN: When you entered into this current agreement you had these outlets anyway?

A Yes.

Q Whatever number they were?

A Yes, and they have been altered a little since that time.

Q MR. DAVIDSON: All right?

"AND WHEREAS the Association is possessed of bulk "plants, agencies and outlets for the distribution "of petroleum products at the points in the said "Province enumerated in Schedule "B" to this "Agreement."

Q MR. DAVIDSON: Something like----

A 59, it should be, or 39, which is it.

Q Approximately 60, I mean the Schedule speaks for itself?

A Yes. The plants in this Schedule "B" were 33 owned by the Central Co-operative Association, Limited, and the balance were made up by plants that were owned by what they called "constituency associations", that is bodies of, local bodies in the constituency and some are privately owned but they all have agreements with the U. F. A. Central Co-operative and they are designated as their plants.

Q THE CHAIRMAN: You buy your products still do you?

A We do, sir.

Q And you distribute it to the U. F. A.?

A Yes.

Q What is present in my mind and may I ask, why the U. F. A. did not buy direct from the Imperial?

A I believe----

Q If you know?

A That that question might be better answered by a representative of the U. F. A. that I understand will be called, Mr. Priestly. I had nothing to do with the original contract and I do not know why that was not so.

THE CHAIRMAN: All right.

Q MR. DAVIDSON: The third whereas?

A "AND WHEREAS it has been mutually agreed by and "between----

Q THE CHAIRMAN: You are exploring why it is under the agreement of 1939, 1940, and 1941, there may be an excellent reason for it but it would appear to be an advantage in the handling to have a middle man instead of the Imperial selling the product direct?

MR. FRAWLEY: My recollection is we did ask Mr. Halverson something about that, whether he said much about it.

MR. DAVIDSON: Yes, he gave a pretty good answer on that.

MR. FRAWLEY: He did deal with it, he said something about this company being taken over as a subsidiary as a going-concern and desirous of not closing them out. Mr. Brownlee will of course also have his, he should be here this morning.

MR. DAVIDSON: One thing I recall he pointed out was that the U. F. A. represented that they were in a position to finance the complete duplication of all these plants and unless they got an agreement they wanted that they might do so. Well here are these plants that the Imperial Oil had fell heir to in a way through their control of Maple Leaf and this would be a good use to put them to.

MR. FRAWLEY: That does not quite answer the Chairman's point. What I put to Mr. Halverson was, why he didn't take in the Maple Leaf, and close it up as

he did the Regal Refining Company and I remember putting the Regal proposition to him and he said "Perhaps our experience with the Regal was not any too satisfactory", and they decided to keep the Maple Leaf going as a going-concern under its own name. It seems to be of some value to these large companies to operate in that way.

THE CHAIRMAN: That may be, but what I am trying to find out and it seems to me that does not come from the Imperial properly or from this witness but from the U. F. A.

MR. DAVIDSON: Perhaps----

THE CHAIRMAN: As to why they found it an advantage in having an intervening subsidiary company.

MR. FRAWLEY: Yes, if they do.

THE CHAIRMAN: They are operating either with a profit or must be expected to make a profit and this apparently would increase the cost.

MR. FRAWLEY: We will deal with that. It may be that the U. F. A. would just as soon deal with the Imperial Oil. I think that is one thing that Mr. Brownlee is going to talk about.

THE CHAIRMAN: You see the jobber may have, it may be established to our entire satisfaction that the jobber has not only a well-known but an established place in the oil industry but at the moment we desire to be shown that that is so, if it be so.

MR. FRAWLEY: Yes.

MR. DAVIDSON: The third paragraph, you omitted the third paragraph.

A " AND WHEREAS by agreement in writing dated the "28th day of October, A. D., 1936, the Company "appointed the Association its exclusive agent for "the sale of its said products at the agencies and "sub-agencies enumerated in Schedules "A" and "B" "hereto subject to the terms and conditions con- "tained in the said agreement;

" AND WHEREAS it has been mutually agreed by and "between the parties hereto that the Company will " continue the appointment of the Association as "exclusive agent as aforesaid for the term hereby "granted and subject to the covenants and conditions "herein contained.

" NOW THEREFORE THIS INDENTURE " WITNESSETH that in consideration of the premises "and the mutual covenants herein contained the "parties hereto covenant and agree each with the "other as follows."

MR. DAVIDSON: I think I can shorten this a little bit, the first paragraph simply points out that the Maple Leaf appointed the U. F. A. Co-operative as its selling agent and I think perhaps you can go on until you get down to-----

MR. FRAWLEY: Both Schedules "A" and "B".

MR. DAVIDSON: Yes.

MR. FRAWLEY: Yes.

Q MR. DAVIDSON: Perhaps you had better read Number 2, Mr. Wallace because it has to do with handling the company's products?

A " 2. Except as otherwise mutually agreed from "time to time, all the agencies will handle exclus- "ively the Company's products under the Company's "brand and will be under the management, supervision "and direction of the Company and will be operated "in the name of the Company provided that the Assoc- "iation may erect at any agency a ridge pole or other "sign bearing its own name as supplementary to the "sign or signs of the Company."

Q MAJOR LIPSETT: What are the company's products referred to there, Mr. Wallace?

A Maple Leaf Petroleum Products, Maple Leaf gasoline, Maple Leaf distillate.

Q What do they produce?

A They do not produce anything at the present time, sir. They did produce when this contract was entered into originally.

Q But at the time of this, they were handling exclusively products purchased from the Imperial Oil?

A Under our brand. We purchase them and sell under our own brand.

(J. E. BROWNLEE, Esq., K.C. appeared at this time).

MR. DAVIDSON: All right, Mr. Wallace.

A Any question about that.

Q I think not, that speaks for itself very well, just go on with the agreement?

A " 3. The Company agrees to compensate the Association "for its services as agent aforesaid for the promotion "of sales and the selling of the Company's products "through the said stations at the following rates of "commission, namely:

W. F. Wallace

3½¢ per gallon for all grades of Maple Leaf Ethyl, Maple Leaf "Q", and Maple Leaf Standard White Gasoline, Illuminating Kerosene, Incubator Kerosene and Lighting Naphtha.

(Standard White Gasoline shall be deemed to mean any white gasoline sold by the Company at the same price as Maple Leaf "Q" Gasoline)

3¢ per gallon for all Tractor Distillates and Tractor Gasoline or any other gasoline known as Third Structure Gasoline.

1½¢ per gallon for Diesel Fuel.

3 ¢ per gallon for Maple Leaf Motor Oil.

15¢ per gallon for Altalube Motor Oil.

1½¢ per pound for all greases.

17¢ per gallon for all Transmission Oils.

8% of Net Invoice price on Industrial Oils.

(In all cases the Association to stand all discounts given from List Prices, excepting Industrial Oils.)

4. The Association may appoint agents or sub-agents, (hereinafter referred to as "Agents") but such appointments shall be subject to the approval of the Company.

Q MR. FRAWLEY: Mr. Wallace, does that mean that the statement within the parenthesis there, that when the Imperial, as they have done, put in differential discounts or whatever they call them, special competitive discounts at certain points in Southern Alberta of 1½¢ off the posted tank wagon in Calgary on Third Structure, and in several other places, that means the U. F. A. has to absorb the discount?

A No, Sir.

Q What does that mean?

A We absorb it.

Q You absorb it?

W. F. Wallace

A Yes. They are to have 3½¢ a gallon for all grades of Maple Leaf gasoline. If there is any special discount to meet competitive allowances put into effect that does not alter this agreement or alter the U. F. A. commission.

Q I just wondered what those words mean "In all cases the Association should stand all discounts given from list prices, excepting Industrial Oils." That means from any list prices or what?

A That is for lubricating oils and greases.

Q MR. DAVIDSON: You have to pay the U. F. A. discounts from lubricating oils and greases. That last paragraph in brackets does not have anything to do with light fuels. That is on lubricating oils and greases.

Q MR. FRAWLEY: Have you anything more to say about that? Perhaps I did not read it properly. Perhaps you want to say something more about it?

A This paragraph in brackets probably should have been explained a little further. That is, it might have been lengthened a little bit to state that it was meant to be lubricating oils and greases that the U. F. A. will stand the discount on lubricating oils and greases given to dealers outside of the cities of Calgary and Edmonton. In other words, when we sell a garageman a gallon of oil we sell him at 82¢ less 10¢ a gallon. That 10¢ comes out of the U. F. A. commission in the same manner as the agents' commission will come out of the U. F. A. commission.

Q It does not apply to what we have been talking about so much in this Commission, special competitive discounts in

Southern Alberta on third structure gasoline and tractor distillate?

A Absolutely nothing to do with that.

Q All right.

5. The Association agrees to pay all agents' commissions out of the commissions heretofore agreed to be paid to it by the Company, PROVIDED that the Company will pay the agents' commissions on goods transferred between agencies and the cartage charge on such goods, which said cartage charge shall not exceed one (1¢) cent per gallon, PROVIDED FURTHER that the Company shall have the right at all times to designate the refinery, bulk station or other source or sources from which each agency shall be supplied.

6. The practices and policies of the Oil Distributing Industry as established from time to time shall prevail in the organization of agencies, the appointment of agents and dealer outlets and generally in the conduct of the business.

7. (a) The business at all stations shall be conducted on a strictly "cash on delivery" basis; except that such credit may be given on dealer accounts as may be authorized in writing by the Company.

(b) Should the Association or any agent of the Association make any unauthorized credit sales to dealers or sales for other than cash to any person, firm or corporation, then and in any such case, to the extent that such sales remain unpaid for a period of thirty days, the amount of such sales shall be deemed to be "uncollected cash sales"

and shall be dealt with in the following manner, that is to say:- The amount thereof shall be charged against the agent of the Association who made the sales and shall be a charge against any commissions due the Association or the agent by the Company with respect to the agency where the said sales were made and the Company may withhold payment of any such commissions. Both the Company and the Association shall use their best efforts to collect any such "uncollected cash sales" and may take such security or securities from the said agent or other person as may be deemed advisable. On the 31st day of March in each year the amount of any such "uncollected cash sales as at December 31st of the previous year then remaining unpaid shall be deemed to be a loss and such loss shall be borne in equal shares by the Company and the Association. PROVIDED however that any sums subsequently collected on account of any such "uncollected cash sales" shall accrue in equal shares to the Company and the Association. PROVIDED FURTHER that the Company may withhold from commissions due the Association at each quarterly settlement such sum as may be necessary to provide and maintain a continuing Reserve Fund of One Thousand ($1,000.00) Dollars to meet the Association's share of such losses.

8. Should a stock shortage occur at any agency, other than a shortage caused by normal handling and evaporation or by duly verified "uncollected cash sales" as defined in the last preceding paragraph, the amount thereof shall be dealt with in the following manner, that is to say:- The Company and the Association shall

use their best efforts to collect the amount of such shortage and may take such security from the agent at the said agency as the Company and the Association may deem expedient. At the end of each half yearly period the amount of such shortage, to the extent that it shall then be deemed uncollectable, shall, to the extent of a one-half share thereof, become a debt due by the Association to the Company payable on demand, and the remaining one-half share thereof shall be assumed by the Company; it being the intent of this agreement that any such shortage shall be borne by the Company and the Association in equal shares.

9. The Company will sell its gasolines, kerosenes, and tractor distillates at the posted tank wagon prices of the corresponding brands of Imperial Oil Limited, and will sell its lubricating oils and greases at the list prices established by the Company for such products. The Company warrants that the Company's products shall at all times be of a quality equal to the quality of products of similar grade and standard sold by the major competing companies.

10. All agreements made between the Association and local associations when bringing the station of such local association within the scope of this agreement shall be such as will require such local association to deal exclusively at its station in the Company's products.

11. This agreement shall not apply to any agency already established or which may be hereafter established by the Company in the cities of Calgary and Edmonton. The Association may establish however in the said cities of Edmonton and Calgary agencies or dealer outlets to the

extent of three in number only in each city, which agencies or dealer outlets when established shall be designated as stations to which this agreement shall apply and thereupon the terms of this agreement shall apply to the said stations to the same extent as if they were enumerated in Schedules "A" and "B" hereto. Elsewhere in the province the Association shall have the right to establish one dealer outlet only at each point.

12. At points where the Association has or may hereafter establish additional agencies through its local associations, pursuant to this agreement, the Company will loan to the Association ninety (90) percent of the amount reasonably required to purchase underground storage tanks, pipes, fittings, pumps and other wholesale equipment required to handle the Company's products. Each of such loans shall be made upon such security as shall be mutually agreed upon and shall bear interest at five (5) percentum per annum and shall be repayable in forty-five (45) equal consecutive monthly payments on the last day of each and every month, excepting that no monthly payments shall be payable by the Association in the months of January, February and March in each year, PROVIDED ALWAYS that upon the termination of this agreement all balances then out-standing in respect of such Conditional Sale Agreements shall forthwith become due and payable.

13. IT IS AGREED AND UNDERSTOOD that should the Association make default in any of the provisions of this agreement, the Company may at its option terminate this agreement, and in particular, should the Association make

W. F. Wallace

default in its covenant to handle Maple Leaf Company products exclusively at any agency, and should such default last above referred to be not remedied within a period of fifteen (15) days after written notice thereof has been given by the Company to the Association, then and in that event the Company may at its option terminate this agreement, or in the alternative declare that such station or sub-agency shall no longer come within the scope of this agreement.

14. The term of this agreement shall be from the first day of January, 1939, until the 31st day of December, 1941, PROVIDED that the Company may terminate this agreement on the 31st day of December in any year during the term hereof upon giving written notice to the Association of its intention so to do, on or before the first day of November in that year, if, during the said year the Dominion or Provincial Government should, by legislation or regulations, impose restrictions or conditions in connection with the Oil Industry in the way of setting prices or establishing practices or policies which would in the judgment of the Company substantially reduce the spread between manufacturing and wholesale prices or substantially increase the cost of carrying on the business of the Company.

15. The Company will keep such records of all sales to individual customers as are required by the Association for its dealings with its members or patrons and to report and account to the Association quarterly, AND FURTHER, the Association shall have the right, by its officers or agents, to inspect the sales or other necessary records of the

Company coming within the scope of this agreement, for the purpose of satisfying itself that the commissions paid by the Company and the deductions therefrom are in accordance with this agreement, and to facilitate such work the Company agrees to permit an official, or employee, or agent of the Association to occupy a desk in its office.

16. The Association will and doth hereby indemnify the Company from and against any and all loss, injury or damage which the Company may sustain by reason of any claim against the Company for any loss, injury or damage arising in respect of any station included in Schedule "B" hereto, or in any station that may be added to Schedule "B" hereto, during the currency of this agreement, and DOES FURTHER AGREE and DOTH HEREBY INDEMNIFY the Company from and against any and all loss, injury or damage which the Company may sustain by reason of any claim for any loss, injury or damage arising in respect of any product or goods, other than the product or goods of the Company handled at any station included in this agreement, whether presently included in Schedules "A" and "B" hereto or that may be hereafter added to either or said Schedules, during the currency of this agreement.

17. Upon the expiration or sooner termination of this agreement the Company covenants and agrees to forthwith cancel all authorized purchasers' agreements at all stations described in Schedule "B" hereto as well as at all stations which may hereafter be brought within the scope of this agreement under Schedule "B", PROVIDED that no such agreement

W. F. Wallace

may be cancelled until all indebtedness in respect thereof has been fully paid and satisfied, AND PROVIDED FURTHER, that such cancellation will be made in accordance with the terms respecting terms of cancellation in the authorized purchasers' agreement.

18. IT IS AGREED that the Company shall pay all taxes, rates and assessments, including wholesale licenses which may be levied in respect of its properties located at points described in Schedule "A", and all personal property taxes which may be levied against the stock-in-trade at all points mentioned in Schedules "A" and "B", together with all business taxes in respect of all agencies located at points mentioned in Schedules "A" and "B", but the Association shall be responsible for all other taxes, rates, assessments, licenses and the like.

IN WITNESS WHEREOF the parties hereto have hereunto affixed their respective corporate seals attested by the respective proper officers in that behalf the day and year first above written.

MAPLE LEAF PETROLEUM LIMITED,

.....

.....

THE U. F. A. CENTRAL CO-OPERATIVE ASSOCIATION LIMITED,

.....

.....

W. F. Wallace

SCHEDULE "A" REFERRED TO IN AGREEMENT OF OCTOBER 28th, 1936, MADE BETWEEN U. F. A. CENTRAL CO-OPERATIVE ASSOCIATION LIMITED AND MAPLE LEAF PETROLEUM LIMITED

Calgary (Except City Only)
Edmonton (Except City Only)
Barrhead
Brooks
Busby
Camrose
Carseland
Consort
Coutts
Dewberry
Drumheiler
Foremost
Grande Prairie
Grassy Lake
Lamont
Leduc
Lethbridge
Magrath
Milk River
Millet
Milo
Morrin
Nemiscam
New Norway
Oyen
Patricia
Ponoka
Rockyford
Stirling
Strathmore
Taber
Tofield
Trochu
Vulcan
Wainwright
Wetaskiwin

W. F. Wallace

SCHEDULE "B" REFERRED TO IN AGREEMENT OF OCTOBER 28th, 1936, MADE BETWEEN U. F. A. CENTRAL CO-OPERATIVE ASSOCIATION LIMITED AND MAPLE LEAF PETROLEUM LIMITED

Acadia Valley
Alix (Lube Oil Only)
Alliance
Arneson
Beaverlodge
Bindloss
Bremner
Brownvale
Calgary Rural
Calmar
Cardston
Carolside
Castor
Cereal
Chinook
Crossfield
Eckville
Edmonton Rural
Egremont
Elk Point
Fairview
Federal
Gadsby
Grimshaw
Hillspring
Holden
Huxley
Hythe
Innisfail
Irma
Iron Springs
Jefferson
Josephburg
Lacombe
Little Gem
Manville
Mayerthorpe
Nanton (Lube Oil Only)
Neerlandia
Okotoks (Lube Oil Only)
Olds
Pickardville
Rainier
Red Deer
Rimbey
Rochfort Bridge
Salisbury
Sedalia
Sexsmith
Silver Heights
Spedden
Strome
St. Paul
Three Hills
Thorsby
Tomahawk
Vauxhall
Vegreville
Vilna
Warburg
Westlock
Wimborne
Youngstown

W. F. Wallace

Q MR. DAVIDSON: Just one question, Mr. Wallace, on that agreement. Is that the whole agreement between your company and the U. F. A., or are there any understandings outside of the agreement?

A Absolutely not.

Q MR. FRAWLEY: Now, Mr. Wallace, this really is an agreement which, as a departure from the usual Imperial Oil procedure of operating a station with a commission agent to whom they pay a commission of 2¢ on country business, by this agreement the U. F. A. agent, wherever the U. F. A. has an agent, the commission is paid of 3½¢?

A No, Sir.

Q On these certain grades?

A No, Sir. The U. F. A. Central Co-Operative receives 3½¢ or 3¢ or 30¢, whatever the case may be, and out of that they pay the agent a commission of 2¢, or whatever rate of commission they happen to be paying that agent.

MR. DAVIDSON: They authorize us to do it for them. It is their money that we pay. We do the paying but it is their money.

Q MR. FRAWLEY: Let us see if I understand it. Take one of these places in Schedule "A". Take the first one after Edmonton and Calgary, Barrhead. Let us assume the Imperial Oil have an agent at Barrhead. As I understand the evidence, that man at Barrhead, which is Imperial Oil owned, it is the Imperial Oil's station, and when that agent at Barrhead sells a barrel of gasoline to a farmer customer, he gets 2¢ a gallon?

W. F. Wallace

A From the Imperial Oil Company.

Q From the Imperial Oil Company?

A I believe he does. It is some place close to that. I have no actual knowledge.

Q Now, just before you operated under this agreement, you were operating this station as Maple Leaf Petroleums Limited, yourself. You operated that through an agent?

A Yes, Sir.

Q You paid the agent at this place, Barrhead, if you had one there, how much?

A 2¢.

Q That is what I mean. Now we will eliminate the Imperial Oil. When you set up business under this agreement, you continued the station at Barrhead?

A Continued the station at Barrhead under the U. F. A. Central. They signed that agency agreement. We have no agency agreements.

Q You still owned the station at Barrhead?

A Yes.

Q You made, by this agreement, the U. F. A. Central Co-Operative Association Limited, which is a legal entity you made that legal entity your agent at Barrhead, didn't you?

A No, we made them agent for the exclusive sale of Petroleum Products in the Province of Alberta, and they might appoint such agent.....

Q Did you, or did you not, make the U. F. A. Central Co-Operative Association your agent at Barrhead? That must be so?

W. F. Wallace

A He is our agent at Barrhead inasmuch as he has the exclusive right for to sell the product. Yes, I presume he would be or he could be termed as our agent for the Province of Alberta.

Q Not he, say the U. F. A. Central Co-Operative Association is your agent at Barrhead?

A In the Province of Alberta, for the Province of Alberta, they are our agent.

Q You say that you appoint them that. Now, at Barrhead the U. F. A. Central Co-Operative Association Limited gets a commission of 3½¢ on the gasoline?

A Yes.

Q And other particulars as listed in the agreement. But speaking of gasoline. They get a commission of 3½¢ a gallon?

A They do.

Q Whereas John Jones you had there before that ~~agreement~~ came into existence at all, ~~got 2¢?~~

A Yes.

Q I do not want to spend a great deal of time discussing this.....?

THE CHAIRMAN: Mr. Brownlee appears to think not. Maybe he could ask the Witness a question. Can you throw any light on this? It will save time.

Q MR. BROWNLEE: Mr. Wallace, that is not the right way of putting it, or is it rather on this basis, that the U. F. A. Co-Operative Association Limited is appointed your exclusive agent throughout the province?

A That is correct.

W. F. Wallace

Q They may appoint an agent at a station such as Barrhead, which was formerly your station?

A That is correct.

Q They make the appointment through the Head Office?

A Yes.

Q You have nothing to do with that?

A No.

Q And you pay to the Head Office of the company 3½¢ or whatever it may be on all business done in the province?

A That is right.

Q And they, in turn, return to the agent at Barrhead, which is their agent, the same amount of commission which was previously paid by you or which is paid by the Imperial Oil to their agent at Barrhead?

A That is correct?

Q So far as you know?

A That is correct.

Q So that it is not quite accurate to say that the Maple Leaf Petroleums Limited has appointed the U. F. A. Co-Operative Association as your agent at Barrhead. You did not appoint the agent at Barrhead?

A That is correct. We did not appoint him.

Q The central office of the U. F. A. appoints that agent?

A All agents in the province.

Q You have paid the U. F. A. Head Office certain sums on the business they do throughout the whole province because of certain considerations which made you think it was advisable to pay that commission as general agent?

A Which my officials think.

W. F. Wallace

Q In other words, I want to make this clear, the 3½¢ a gallon commission which you pay to the U. F. A. is the commission paid to general agents in the province?

A General agents in the province, that is correct.

Q Whatever they pay in turn to their agent at Barrhead is the local agent's commission?

A That is correct.

Q To understand this contract fully, there must be a clear distinction between the general agent's commission, which you pay to that Association in the province, and the local agent's commission which they in turn pay to their agent at Barrhead?

A I intended to make that point clear.

Q MR. FRAWLEY: You deal only with the U. F. A. Central Co-Operative Association Limited?

A Yes.

Q And they are your agents at all of the 36 points. I am only dealing now with Schedule "A", the properties which you own or which you used to own?

A They are the agent all over the province.

Q They are your agent at the 36 Maple Leaf points in Schedule "A"?

A The Head Office.

Q The Head Office?

A Are my general agents at these 36 points.

Q You only know and deal with the U. F. A. Central Co-Operative Association Limited?

A Well, in that sense of the word, yes. Of course, we do supervise the agencies.

W. F. Wallace

Q You know they have done certain things themselves but you only deal as I understand the agreement with the Central Association Limited?

A In the payment of commissions, we deal only with the U. F. A. Central Office, who, in turn give us the right to subtract their local agents' commission from the commissions, the total commissions paid them.

Q What I am trying to get at is, the Central heart of the contract. The U. F. A. do certain things at the local points. Do you know what they do, or have you any direct control over what they do?

A We have a certain amount of control over what they do.

Q Could they, at Barrhead - keeping to Barrhead only to unnderstand it - could they at Barrhead appoint a salaried agent at $50.00 a month?

A If they wanted to, I presume they could.

Q That is what I am getting at. It is only a circumstance that they have an agent that they pay so much commission to at Barrhead?

A Yes.

Q They are your agent at all these points, general agents, as Mr. Brownlee says?

A Yes.

Q At Barrhead and other points?

A Yes.

Q What they do between themselves and the man at Barrhead or Ponoka or Drumheller or anywhere else is a matter between themselves and their individual agents?

MR. DAVIDSON: Not entirely. We have the

right to approve.

A I approve all agreements made with agents.

Q MR. FRAWLEY: It sums up my understanding of it when you say that they could, as far as this agreement is concerned, that they could appoint a salaried agent at all of these points?

A If it met with my approval, which is the agreement between the U. F. A. Central Office and myself, I presume that is right.

Q MR. BROWNLEE: Your approval, in order that there may be no misunderstanding, is largely directed to the status and calibre of the man inasmuch as you assume part of the credit losses?

A That is correct.

Q You do not extend any supervision or try to interfere with any of the general business policies of the U. F. A.?

A Absolutely not.

Q But inasmuch as your company is responsible to a certain extent for the credit losses you feel you should have something to say as to the calibre of the man that is put in there?

A It is usually discussed and agreed upon, the type of man who is going to be put in.

Q I want to make it clear when you say you have certain supervision of the contract that that supervision is directed to a certain purpose. In other words, it is not in order to give you complete control of this U. F. A. Central Office?

A I have not got complete control in any manner like that.

W. F. Wallace

Q MR. FRAWLEY: Passing on to Schedule "B" and picking out any place there. The first one, Acadia Valley. What is the essential distinction between the agency at Barrhead, which is in Schedule "A", and the agency at Acadia Valley, which is in Schedule "B"?

A The agency in Barrhead was originally and still is owned completely by the Maple Leaf Petroleums Limited. The Acadia Valley agency is, I believe, owned by the Acadia Constituency Association, Co-Operative Constituency Association and leased to the U. F. A. Central Co-Operative by a working agreement between the Central Office and the Acadia Association, who have approximately 10 agencies in a certain area known as the Acadia Constituency.

Q That is getting down to the bottom of it. But is it fair to put it this way, the U. F. A. Central Co-Operative Association Limited.....?

A You could cite Lacombe there.

Q Let me put it to you generally. The U. F. A. Central Co-Operative Association Limited brings into this agreement as their own, as far as you are concerned, and however they got them, do they bring into this agreement the stations under Schedule "B"?

A Yes.

Q What is the difference between Schedule "A" and Schedule "B"?

A There is no difference. They are all operated in the same manner, They are all paid in the same manner. The U. F. A. Central Office gets the same commission on all agencies in "A" as they do in "B".

Q How about the application of Section 15, that is where you

agree to keep the records of sales to individual customers as are required by the Association?

A It is all the same. Each of these agencies are all operated in the same manner by the Maple Leaf Petroleums Limited as far as accountancy, payment of commissions or appointing of agents. It makes no difference whether it is a U. F. A. station or a Maple Leaf Station.

Q Until you come to Section 18 dealing with the payment of taxes and there is a clear-cut distinction?

A Yes.

Q That speaks pretty much for itself?

A Yes.

MR. DAVIDSON: They might have been in one Schedule except there was some accounting division and difference, the payment of taxes.

Q What does your "A" mean? Business on cash delivery basis. Are you the one and only marketer in Alberta that is on the cash and carry basis?

A I think they are all on the cash and carry basis.

Q Well it is not cash and carry. It is cash on delivery?

A I think they are all on the cash on delivery basis as far as the original intention of appointing the general agent was concerned. That might differ a little bit in case of an uncollected cash sale, but we are endeavoring to hold to that as strictly as possible.

(Go to Page 11,896)

W. F. Wallace

Q I really read it a little too quickly, it is not a question of the farmer taking delivery at the station. You make deliveries just like all other major oil companies do?

A Well, we leave that to the discretion of the local agent. If he can make an agreement where he does not have to deliver goods, that is entirely up to him. We do not force him to buy a truck and make deliveries. There are certain agents that do not make deliveries, certain districts and certain points that is agreed on between the companies, where deliveries are not made.

Q We never heard that before, so there are certain points in Alberta where none of the companies big or small make free deliveries to the farmers?

A I believe there are. I know one agency called Chinook, that we have no delivery system so far as I know.

Q And nobody else has at Chinook?

A I understand from the agent at Chinook.

Q That there are no deliveries. I would like to know about that. Maybe at some time you might inform yourslef about that and tell us what you know about it?

A I believe that is about the outstanding one. I always remember it, it was given me, that information and I cannot recall any other particular ones.

Q I would like to know and pass that information on to Dr. Frey. If you know of any places in Alberta where rural deliveries are not made in that way where the farmers come and make their own deliveries?

A I will check up on it.

Q Passing from that then. The procedure at your stations, other than these few points, is the same as at the Imperial Oil stations, if a farmer demands his gasoline delivered on his farm it is delivered?

A If he asks for it, yes.

Q And it is the same 3½ cents commission, that is just the expense of operating the trucks and all that is borne --

A By the agents.

Q By the local agent?

A By the local agent.

Q And that depends upon the arrangement made between him and the U.F.A. Central Co-operative?

A That is correct.

Q MAJOR LIPSETT: Do you charge any rent for the stations in Schedule A?

A No, sir.

Q In the case of the stations in Schedule A, then the Association gets the 3½ cents discount plus free premises?

A Yes.

Q In the case of Schedule B the stations, the U.F. A. Association has to provide the stations?

A That is right. There had to be some fair, equitable basis upon which the contract was made and I understand, although I had nothing to do with the original contract and the making of it, I understand that it was agreed that the U.F.A. Central offices would put up a certain amount of stations and we would throw our stations into the agreement and there would be no rental agreement arrived at or charged to the U.F.A. Central office.

W. F. Wallace

Q Do you know if the same retail price, the same spread is charged to both stations?

A The prices prevailing at the town wherein the station operates is a similar price to all other major companies, is that what you mean.

Q Yes, is the same spread charged to the farmer under Schedule A where the stations are given free to them as are charged under Schedule B where they have to operate the stations?

A The farmer pays the market price for his products. It has no bearing on whether the station is owned or not.

Q THE CHAIRMAN: You meet the competitive price in each town?

A We meet the competitive prices.

Q MAJOR LIPSETT: Well, who gets the benefit of this free rental?

A Well the U.F.A. Central office gets the benefit in these and our office will get the benefit of sales to their stations so I cannot see there will be any great difference.

MR. DAVIDSON: Perhaps I can help out a little there. Mr. Wallace did not sit in when that agreement was made and I recall very distincly the question of rents coming up and instead of complicating the agreement by setting up a Schedule of rents the whole thing was bulked into one and taken into consideration when the rate of Commission was fixed.

MR. BROWNLEE: General commissions.

MR. DAVIDSON: General commissions, the commissions mentioned in the Schedule contemplated that

we would give them some stations and which they were not paying rent for directly and that we would get the benefit of the outlets at their stations, which we were not paying any rent for. It was just a matter of bargain. The commissions were fixed having in mind that there were some stations for which there was no rent being charged either way. Perhaps if we had charged up rents then the commission would have been different.

Q MR. FRAWLEY: There are no places at which both the Maple Leaf, there are no places, I might put it this way, where Schedules A & B clash in other words?

A No, sir.

MR. FRAWLEY: All right.

Q MR. DAVIDSON: Well if that is all for the agreement. We will not get away from the agreement for a while yet because in discussing the financial picture the agreement will still be with us. Mr. Wallace there is, I have here the financial statement, Pages 1, 2, 3 and so on as prepared by the company for its own purposes and then Mr. Frawley asked for certain breakdowns of certain items and they have attached these Schedules to the financial statement and reference made in the statement wherever there is a breakdown in the various items "See Schedule so and so". Now I would not know how you would want this put in. Mr. Frawley has suggested that he thinks perhaps the breakdowns should go in as separate Schedules because they will be referred to.

THE CHAIRMAN: For the purposes of separate discussion they must be. However, we might make it one Exhibit and your Schedules will be labelled a, b, c, of

the one Exhibit.

MR. DAVIDSON: That might be a little confusing because as I understand it in the statement we prepared for our own purposes there are some Schedules in there under lotters before we come to the breakdowns.

THE CHAIRMAN: Let us deal first with the one Exhibit, what is this you are offering, regardless of what the other Exhibits are you are going to put in.

MR. DAVIDSON: Then the financial statement for the year 1938.

THE CHAIRMAN: All right. Now we will take that and call it Exhibit "512".

(FINANCIAL STATEMENT OF THE MAPLE LEAF PETROLEUM LTD. PRODUCED AND MARKED AS EXHIBIT "512".)

THE CHAIRMAN: Now, Exhibit "512" is what?

MR. DAVIDSON: It will be the financial statement and that will include the whole bundle because after all we breakdown certain things but it is part of our statements. Mr. Frawley has asked us to break down certain other items but it is still a part of our financial statement although in greater detail so I think the whole bundle might go in as the financial statement.

THE CHAIRMAN: The whole bundle will not go in as the financial statement if it is not the financial statement.

MR. DAVIDSON: It is, because it is only a breakdown.

THE CHAIRMAN: If we have one Exhibit, we want to deal with it separately for discussion and we want to know what you are talking about. If you can take the break-

down, if that appears on Page 50, then it is not your financial statement on Pages 1 and 2. We just want to be able to identify what we are talking about from time to time. Now you have the financial statement ---

MR. FRAWLEY: I would call it a series of financial statements.

THE CHAIRMAN: Is it the financial statement of the Company?

MR. FRAWLEY: It is, of 1938. I think if I could explain it, the amount of capital employed is on one sheet, the next is the profit and loss statement, the next is called a comparable analysis of marketing expenses; the next is called, long term notes receivable. Some of these are things that Mr. Cottle, as I understand, wanted particular information about.

MR. DAVIDSON: They are only Schedules of total amounts as shown on the financial statement.

THE CHAIRMAN: Have you one single document which is the financial statement?

WITNESS: Yes, which is made up of several pages.

MR. DAVIDSON: We give a little more detail.

MR. FRAWLEY: Mr. MacLegan, the accountant, suggests that the first five pages might be called the financial statement.

THE CHAIRMAN: The only other alternative, Mr. Frawley, is one which Mr. Lipsett suggests, namely that you put it all in as one Exhibit and that you stop right now and page it, page 1 to the end.

MR. DAVIDSON: I was going to suggest that.

THE CHAIRMAN: And then we can talk about it by pages of the Exhibit and as you know we have to be able to talk about different things.

MR. FRAWLEY: I though it was paged.

MR. MACLEGAN: It is paged down to 6 and then they are Schedules from there on.

THE CHAIRMAN: If you put this in as one Exhibit, I do not care how it is done, but we do not want any confusion about it. I suggest we stop and Page it from one to the end.

MR. FRAWLEY: We will page it and that is what we will do now. It is paged down to page 6.

THE CHAIRMAN: All right.

(A short adjournment was here taken to number the pages of Exhibit "512")

MR. FRAWLEY: Now this Exhibit, Mr. Chairman, will be described as the financial statement, I think, of the Maple Leaf Petroleum Limited, which is the first five pages and pages 6 to 18 inclusive will be supporting data.

THE CHAIRMAN: That seems a very satisfactory way of dealing with it.

MR. DAVIDSON: You have a copy, Mr. Frawley, so there are only three additional ones for me to leave.

Q MR. DAVIDSON: Now, Mr. Wallace, you have a copy of what we have just submitted as an Exhibit?

A I have.

Q It is quite a long document and you might take the opportunity now to go over that to the extent of explaining it briefly on any points that might need enlargement; just give us a general picture of the company for 1938 so far as its

operating was concerned and its financial position?

A Page 1 shows current assets and current liabilities and will be followed on and explained in the following pages. It is merely an accounting form.

Q You have that statement?

A The page is self-explanatory and it shows the current assets and liabilities.

Q And the result is, it has current assets of ----

A $233,981.41. Page 2 covers the deferred accounts receivable which are broken down in Schedules a, b & c.

Q MAJOR LIPSETT: What is that item, liability for iron barrels in customers' hands, on Page 1?

A Beg your pardon?

Q Totalling $232.00, liability for iron barrels ~~in customers'~~ hands?

A That would be barrels on loan at the farm, I suppose, what is that Mr. MacLagan.

MR. MACLAGAN: That is barrels that we have charged out to customers.

WITNESS: Barrels that we have charged out to customers. We have not collected for them. They are merely charged in our books and it would be credited if and when we get the barrels back again. We charge the barrels out at $8.00 or whatever we charge for our barrels when we sell the goods.

Q MAJOR LIPSETT: In the case of your company there was no supplying of free barrels, you charged for the barrels?

A Several times we do make charges to certain customers and keep a record of it but it is rather expensive and I would no

say we did it on every occasion.

Q THE CHAIRMAN: Does the farmer customer pay for the barrels?

A No, sir, he does not, we charge it up as a book entry.

Q It is a book entry to keep a record of it?

A Yes.

Q Where the barrels are?

A And who they can be picked up from it if it can possibly be done.

Q And one entry you do not make is that you do not collect the price of the barrel?

A No, sir.

Q You might pause there to tell us what you think about that?

A About barrels?

Q It costs money to get barrels, I suppose?

A Yes, considerable.

Q Yes, and why do you supply barrels, to hold somebody else's fluid?

A Well, in the first place we originally supplied barrels to meet competition, to hold our own products. We have no other way of doing it. We found like all other oil companies that farmers disregard the fact that they have a barrel belonging to the Maple Leaf and they do not hesitate to go and fill it with Turner Valley products or Imperial Oil products or B. A. products or anything else.

Q You get no benefit and you suffer a considerable loss?

A I would not say that we do not get any benefit at any time but we have quite a fow customers that appreciate

the fact that the barrel belongs to the Maple Leaf Oil Company and do not use it otherwise but a great many of the farmers do and they get the barrel filled at other places regardless of which company the barrel belongs to. He goes to Turner Valley, he goes to Montana with a barrel, whatever the case may be.

Q What loss do you figure on barrels in a year, what does it cost you?

A I do not know. Have we that in dollars and cents, Mr. MacLagan?

MR. MACLAGAN: No we cannot.

THE CHAIRMAN: Is Mr. MacLagan being called?

MR. FRAWLEY: He might be called of course or his answers can be put in through Mr. Wallace.

WITNESS: I do not think we can break that down into dollars and cents because it costs an enormous amount of money to try and recover the barrels. Supposing you have 150 barrels in an agency, there may be 140 out in farmers' hands and you have to have your auditor or representative go out and scour the country and it costs his time and there are possibly expenses to try and reach them. I have made two endeavors these last two years to try and get as many barrels in after the threshing season as it was possible. We put on quite a campaign. I wrote to the agents and had Mr. Priestley working in conjunction with me and endeavored at one time to get an accurate accountancy of the barrels which we really had or were on hand, that we actually had and we couldn't find out at all, we cannot say, like any other oil company, how many barrels we actually have, that we

could lay our hands on within any reasonable length of time.

Q THE CHAIRMAN: We have had views from other companies about this barrel situation, what is yours, as to whether or not it should be continued?

A Well, of course, I will have to answer that by saying any opinion expressed would be my own. I have to meet competition.

Q You are the only one under oath and it is your opinion we are asking for?

A I have to meet competition the same as other companies but I would welcome any regulations or any agreement that could be entered into between the companies for the termination of loaning barrels if it is possible to do so. It would be a great saving and it would take a great burden off the shoulders of anyone who is responsible for these barrels and we could then say "That is something we do not have to worry about".

Q And it would be an actual saving of dollars to each company?

A Yes, actually many dollars of actual savings to our company. It would necessarily be that because we have had to put out a lot of barrels in each year. We bought about three carloads this year and three or four last year.

Q I take it the loss you suffer in respect to barrels must be reflected in your general financial picture?

A It is dollars and cents.

Q And people who are your consumers who have not the slightest interest in your barrels are helping to pay for those barrels?

A Yes, it would all be in the ultimate financial statement in dollars and cents.

Q Yes. Now what about free deliveries, what are your views about that, if you might touch upon that, does the same apply there?

A We have to do it.

Q Because your competitors do it?

A Yes. If they do it it is necessary for us to do it. I would also there again welcome any agreement that might be entered into between the oil companies whereby the delivering of the products is a thing of the past. That they would no longer be delivered. The farmer could come into the warehouse, as some are doing at the present time, and pick up their own products instead of sending an agent probably ten or twelve or fifteen miles to take out a barrel of gasoline or whatever the case may be. Sometimes the agents go out themselves so they can make a full load and other times they have to go out on an emergency with one or two barrels, which must be costly and is costly. If it could be terminated I think it would be a good thing for the oil industry. There was one time we did not do any delivering. The farmers picked up their own.

Q When was that?

A Well, I can recall, it was about 1924 that it really started in earnest in Saskatchewan; I was working in Saskatchewan then but previous to that time I am pretty safe in saying that there was very few, if any, oil deliveries. The farmers were using wagons at that time and they shipped to the nearest railway station from the closest oil agency and they picked it up there and then one farmer and another kept insisting on free deliveries

and it went to a mile and then to three miles and then the limit was taken off altogether.

Q We have heard something of busy seasons making it very desirable that there should be deliveries. So long as you are exploring the feature of these deliveries being free, might I ask, I suppose any trucking concern would be glad to make deliveries?

A For payment.

Q Yes.

A Oh, yes, any trucking company would be glad to earn more money.

Q Do you know of any reason why free deliveries should be charged on to the oil business generally in Alberta?

A No, I cannot say that I do. The oil industry, it is a charge on everybody who buys oil and gasoline.

Q On all consumers of oil?

A No, I cannot see any reason for it and I cannot say that there is anything that a person can say in favor of giving the farmer free delivery and charging it up against someone else; of course, it really comes out of the agent's commission which is paid to him with the understanding that he will make free deliveries to the farmers.

Q But he has to have more on that account?

A He would have to have more on that account.

Q Looking at it in any way you like, it must be taken up in the general financial picture of your company?

A Yes, it must be picked up.

Q Spread over all those who are doing business with you?

A That is correct.

W. F. Wallace

Q And if you eliminated it it might have a very definite effect upon the price of the products which are being sold in the oil business?

A I would think so, yes. We would not have to pay the agents that same commission probably.

Q Looking at it from the farmer's point of view one can see the desirability of getting the service free?

A Oh, yes.

Q But what I am putting to you as an experienced oil man, aside from the force of competition, is there any just reason that you know of why it should be free?

A No, Mr. Chairman, I can see no just reason why it should be free, free delivery to the farmer for the products which he is going to use on his farm. He is in town quite frequently, he surely could pick up his requirements when he is in town rather than have them deliver to him, such as in many cases they have today. He takes home his own groceries and he could take home his own gasoline too.

(Go to Page 11,910)

Q MR. COMMISSIONER LIPSETT: Is there not a difference between groceries, that he can put in an ordinary motor car, and a drum of gasoline?

A I do not mean that he should put a drum of gasoline, Mr. Commissioner, in a car. But he has other methods of transporting his wheat and other products and machinery, to and from town. The conveyance he uses for that, whether it be a waggon or a truck, could surely be used for taking back a drum of gasoline.

Q THE CHAIRMAN: Even as an agent circulates the country with free deliveries, so could a paid person circulate the country with deliveries?

A Yes. We have agents who have not got their own trucks who pay for delivery.

MR. DAVIDSON: What is page 3 of this Exhibit?

Q MR. COMMISSIONER LIPSETT: Just before you finish page 1. What is that item, 185 claims receivable, $48,000.00. $48,511.00?

A That is claims receivable would be---where is that, Mr. Maclagan?

MR. DAVIDSON: I wonder if Mr. Maclagan might explain that.

MR. FRAWLEY: I suggest that Mr. Maclagan be sworn.

THE CHAIRMAN: Yes, I think so.

FREDERICK ALEXANDER LYALL MACLAGAN, having been duly sworn, testified as follows:

THE CHAIRMAN: Don't you think it might be wise to have the witness step down and have Mr. Maclagan, who made this statement, explain it, and then you can come back?

F. A. L. Maclagan.

A Yes, I would much rather do that, Sir.

MR. DAVIDSON: Very well, Sir.

THE CHAIRMAN: All right.

Q MR. DAVIDSON: The Commissioner asked a question in regard to that $48,511.20, Claims Receivable?

A I will explain what that is. You will also notice there is a reserve of $47,000.00 there that represents the largest portion of that claim. When we were operating our refinery at Coutts we exported fuel oil to the Great Northern Railway in Sweet Grass, Montana, which at one time was duty free. The U. S. Government placed a duty on this of 20 cents per barrel and we paid the duty under protest at that time. It is still a matter of much litigation and it never has been settled. It is still on the books and this reserve here is practically the full amount, $47,329.26.

Q MR. COMMISSIONER LIPSETT: It is really a claim for refund of duty?

A It is really a claim for refund of duty which we claim should never have been charged because we were only returning into the United States goods which we had exported from the United States in the form of residual fuel oil.

Q THE CHAIRMAN: You had better ask Mr. Maclagan what position he holds.

Q MR. DAVIDSON: Yes, what is your position with the company, Mr. Maclagan?

A Chief accountant.

MR. DAVIDSON: Is it your desire to go along now with the financial statement from there on?

THE CHAIRMAN: Yes.

MR. DAVIDSON: We were past page 1, unless there is some further question, and page 2. Now, over to

page 3. Mr. Wallace was just aabout to tell us what page 3 was in this Exhibit.

Q MR. COMMISSIONER LIPSETT: Page 2 makes the total assets $297,224.00 instead of the figure of $233,981.00?

A That is the total capital employed. That is with the exception of the fixed capital assets, you see. The other was just current assets. Page 1 was just current assets.

Q Yes?

A Page 3 is the analysis of the profit and loss fr the year 1938. It shows a net loss of $31,023.37.

Q MR. FRAWLEY: What really caused the losses, would you say?

A Well, during the year we had two price reductions, and, as you know, we are buying our products on a spread and those two losses plus those discounts in effect in the south country, accounted for approximately $24,000.00 of those losses.

Q MR. DAVIDSON: Just a little louder.

A Did you get that?

Q Yes, I got that.

Q MR. FRAWLEY: You say you are operating on a spread?

A Yes.

Q How much of a spread on the goods which are first described or first mentioned on page 3 of your agreement, Exhibit "330". That is Maple Leaf Ethyl, Maple Leaf "Q" and Maple Leaf standard white?

A We have that to file, Mr. Frawley.

Q You can just say offhand?

A It was 6 cents on Maple Leaf gasoline, 6 cents per gallon.

Q You attribute the loss to the reductions at which you were

F. A. L. Maclagan.

compelled to sell your goods?

A Yes.

Q And not to the narrowness of the spread after you had given 3½ cents to the U. F. A. of the 6 cents which you got from the Imperial?

A No.

Q MR. DAVIDSON: Have you taken off any tentative statement for 1939, which would indicate that the picture may be any different this year?

A Just our regular monthly statement which is prepared each month.

Q Does it show----

A It shows we are reducing expenses and, of course, we naturally, the more we reduce our expenses, the better opportunity we have of presenting a better picture at the end of the year.

Q To date have you had to take any inventory losses this year, comparable to last year?

A We have taken one to-day.

Q Just today?

A When the price changed.

Q You will probably be coming to that later on or someone will?

A Yes.

Q We go to page 4. What is page 4 of this schedule?

A Page 4 is an analysis of the profit and loss account, showing the expenses for the year 1938. Those are expense items and they are itemized.

Q THE CHAIRMAN: 1938 or 1937?

MR. DAVIDSON: At the top there, what is that figure?

A The heading is 1937, but it is a typographical error and it

F. A. L. Maclagan.

should be 1938.

MR. DAVIDSON: Everything is 1938 on this bundle.

A These expenses are enumerated. I do not know that there is any explanation. The total expense for the year was $250,652.74.

Q Go right on then.

A Page 5 is a statement of the fixed capital assets with the reserves set up for the end of the year and the depreciated value as they stood in our hooks at the end of the year.

Q MR. FRAWLEY: The depreciation is worked out on the basis of the Dominion Income Tax provisions?

A Yes. The rates are set. We have a schedule to come after, on another page.

Q Page what?

A Page 17.

Q All right?

A That shows a breakdown in the amount charged off to expense last year and the rate for each class of equipment.

Q O. K.

A Page 6 is a comparative analysis of the marketing expenses for the year 1938. It shows the expense by class of expense, and type of expense. It is broken down by various classes, such as supervision, salesmen, office, company owned stations and also by salaries, sickness, wages, etc. This gives the cost per gallon at the end.

THE CHAIRMAN: Mr. Frawley, just while it is present in my mind. Excuse me, Mr. Davidson. You will have representative farmers before us to speak upon the subject of free deliveries and free drums, will you?

F. A. L. Maclagan.

MR. FRAWLEY: Certainly I will. I would not want the Commission to come to any conclusion about that without hearing what the farmers have to say about it.

THE CHAIRMAN: That is what I want to be clear on.

MR. FRAWLEY: I think so. We might hear them here or in Edmonton.

THE CHAIRMAN: At the moment, from what we have heard, there would appear to be no justification for it. Now, before coming to any particular conclusion that that is so we have to hear representatives of farmers from all parts of the country. That should take but a little time in the hearing of the evidence.

MR. FRAWLEY: Quite so.

THE CHAIRMAN: If they justify it we want to hear their reasons.

MR. FRAWLEY: Yes, and while Mr. Priestly and Mr. Brownlee are here, I would be glad to hear what Mr. Priestly might have to say about that. He is in touch with certain groups of farmers.

THE CHAIRMAN: I am not suggesting who should speak for them. It will be for you to make enquiries and determine who will be most representative.

Q MR. DAVIDSON: Mr. Maclagan, we can go along here, unless there is some question on the breakdown.

A Page 7 is an itemized list of long term notes in the receivable accounts, which is shown on page 3.

Q MR. DAVIDSON: We are past the financial statement and we are coming to the breakdowns specifically asked for. That is a breakdown of the long term notes.

Q MR. FRAWLEY: Was this asked for by Mr. Cottle?

A Yes.

Q The same for 8, schedule B?

A Pages 8, 9, 10 and 11.

Q Yes?

A Page 12 is the total operations. That is arriving at our gross profits by products.

Q MR. DAVIDSON: All right, the next?

A Page 13. Page 14 is a statement of the investments, depreciation, rents paid and received and taxes at our own plants and plants leased by ourselves.

Q MR. COMMISSIONER LIPSETT: What is Schedule C on page 11?

A Schedule C, page 11, that is a statement of the points at which we have mortgages on plants which were financed by the U. F. A.

Q Are those plants in Schedule B of your agreement?

A Yes.

MR. FRAWLEY: Those are all in Schedule B?

MR. DAVIDSON: They may not be. The agreement makes provision for new plants being set up. They would more likely be in points that have come within the agreement pursuant to it by reason of new points being opened up.

MR. FRAWLEY: Were you discussing 12. Would you give us a short caption for 12. There is no caption here at all?

A It is just a breakdown of page ----Gross Trading and Operating Profits. You will notice that on page 3;

Q It is a breakdown?

A By products.

Q Of?

F. A. L. Maclagan.

A Of our operating or trading profits.

Q All right. Shown on page ?

A Shown on page 3.

Q O. K.

MR. COMMISSIONER LIPSETT: Mr. Davidson, just to clear up the record. On that statement you made, they seem to be all in Schedule B?

MR. DAVIDSON: They may be, but I could see where it was possible they might not be, that is all.

MR. COMMISSIONER LIPSETT: They all seem to be in Schedule B?

A That is the only place they would appear if we were financing. If they were not on there they would have to be added the next time a contract was made.

MR. DAVIDSON: My thought was inasmuch as the agreement provides for acquiring other outlets entirely, not mentioned in A and B, that these that were financed might easily be the ones that were acquired subsequently.

MR. COMMISSIONER LIPSETT: They seem to have been acquired prior to the third agreement.

MR. DAVIDSON: Then we can go on to the next page that you have not identified.

A Page 14, I did.

Q MR. FRAWLEY: Yes.

A 15 is a continuation showing the service stations.

Q Just one short question on page 14. That refers back again to page 3?

A No. Mr. Cottle asked for this statement showing the investment we had at our various plants, a breakdown of it. We have an investment shown on the group of our page 5, I believe it is, Mr. Frawley.

Q Yes?

F. A. L. Maclagan.

A On page 5 appears the group and he wanted it broken down by plants, showing where the places were where we paid rent, taxes, and the net value of that equipment. Which is pages 14, 15 and 16, are all dealing with that, breakdowns of that.

Q Right.

Q MR. DAVIDSON: Page 17?

A 17 is a schedule of depreciation charged off during the year.

Q That is the one we referred to a little while ago?

A And with depreciation added on transport equipment.

Q And 18?

A Page 18 is a statement for the 12 months of 1938 showing the total commissions paid to the U. F. A., and a summary of sales and percentage of sales by the different classes.

Q MR. FRAWLEY: What does that mean,"paid on transfers"? Well, wait. The total commission you paid in 1938 was $132,461.20?

A That is to the U. F. A., yes.

Q What is the amount that is on there, paid to transfers to "A" commission agents?

A In our contract you will probably remember a clause dealing with transfers from one point to another at our various stations where we probably did not carry enough stock at another agency and we paid a half cent commission transfer by a nearby agent to transfer to another agency. "A" means in Schedule A.

Q Yes. Just one more word then on this matter of commission. As I understand, coming back to the agreement, 100 barrels of gasoline is sold through the Barrhead station, which is one of your own stations, and you pay the U. F. A.

F. A. L. Maclagan.

Central Co-Operative Association 3½ cents commission?

A Yes.

Q 100 barrels of gasoline is sold through the Alliance station, which is in Schedule B and which is a station owned by the U. F. A. themselves, and you pay the same 3½ cents commission?

A Yes.

Q Now, as to the arrangement existing between the U. F.A. Central Co-Operative Association and its various agents, I suppose you are leaving that to be discussed by Mr. Priestly, or are you able to speak to that?

A As they signed the contract, I believe they should answer any questions in that connection.

MR. BROWNLEE: May I just interject there, Mr. Frawley?

MR. FRAWLEY: Yes.

Q MR. BROWNLEE: Mr. Maclagan, at those stations, whether they are Schedule A or Schedule B, am I correct in this, that the management and sales effort around that district is in the hands of the U. F. A.?

A The sales effort is in the hands of the U. F. A.

Q All that the Maple Leaf has done in the original contract which they made with the U. F. A. is to say,"that in consideration of you acting as general agents throughout the Province we will turn over, without charge, some 30 stations which we have and we will pay you a general commission of so much a gallon on everything that is sold." That is in essence the bargain?

A Yes.

Q And having turned over the Schedule A stations to the U. F. A. organization, the getting of the consumers around that point

F. A. L. Maclagan.

is left to the U. F. A., just exactly as it is in the Schedule B stations?

A Yes.

Q So that that additional cent and a half or whatever it may be, which is now being talked about, is the consideration which is paid the U. F. A. for its sales effort in that district, just the same as it is being paid for the sales effort in another district?

A Yes.

Q So that in essence there is no difference at all in the way in which a Schedule A station is operated under this agreement?

A No.

Q Or a Schedule B station?

A Yes.

Q THE CHAIRMAN: Where there are Schedule A stations are there also Imperial Oil owned stations, as a rule?

A No.

MR. DAVIDSON: Only one or two.

MR. WALLACE: Those are the plants that we took over, the old Regal plants and so on, instead of dismantling them we gave them a lease so they could operate them.

Q MR. FRAWLEY: Mr. Maclagan, I am sorry my map is away being amended. The Maple Leaf Petroleums Limited operated these stations in Schedule A originally before the company was taken over by the Imperial?

MR. BROWNLEE: No.

Q MR. FRAWLEY: I am looking at Exhibit "330",

F. A. L. Maclagan.

in Schedule A those are Maple Leaf stations, the one which you people own?

A Yes, we took those over.

Q MR. BROWNLEE: You took those over from the Northern Oils?

A We took those over from the Northern Oils in 1935.

MR. DAVIDSON: And some from the Alberta oil consumers?

Q MR. FRAWLEY: Back in 1934 or 1935. At that time the Imperial Oil had been in the Province for years and years?

A Yes.

Q And had put its stations up wherever it thought best?

A Yes.

Q And then came the Northern Oils and they put up stations wherever they thought they should be put?

A The Northern Oils bought them from the old Maple Leaf Refining Company.

Q Yes. Then the old Maple Leaf Refining Company put up stations wherever they thought it best to put them ?

A Yes.

Q They were not a part of the Imperial Oil?

A No.

Q And they put them up wherever they thought they should?

A Yes.

Q The Northern Oils took over the Maple Leaf Refining Company stations?

A Yes.

Q And the Maple Leaf Petroleums Limited took over the Northern Oil stations?

F. A. L. Maclagan.

A I understood that happened.

Q And then the Imperial threw them into the Maple Leaf Petroleums Limited, which now owns and operates them?

A Yes.

Q MR. BROWNLEE: For the sake of accuracy, is it not also true the date of taking over the Northern Oil stations was also the date, approximately, of the contract with the U. F. A. ?

A As I remember, it was June 30th.

Q In the same year?

A In 1935, yes.

Q In other words, it is not accurate to say that the Maple Leaf had been operating all these Schedule A stations before the date of the U. F. A. contract?

A No, Northern Oils.

Q MR. FRAWLEY: Then the Imperial found themselves with all these Northern Oil stations?

A Yes.

Q In places, I suggest to you, at some points there would be both the old Imperial station and the Northern Oil station?

A It is possible, yes.

Q Then the Imperial did not close up any of the Northern Oil stations, or did they close up some Northern Oil stations?

A Not to my knowledge.

Q Don't we find in many of these cases, some I can tell you right off, Brooks has an Imperial oil station, surely?

A Yes, they have.

Q And the Maple Leaf has one now, or the Northern Oils?

A Yes.

Q And Camrose?

A Yes.

Q A great many of these stations, surely, and I am just getting back to the Chairman's original question, at a great many points in Schedule A, which are your stations, acquired in this way from the Northern Oils, the Imperial Oil operates stations?

A Yes,

THE CHAIRMAN: I suppose your map will show exactly?

MR. FRAWLEY: Yes.

THE CHAIRMAN: When it is verified by somebody.

MR. DAVIDSON: Any other questions on that financial statement?

MR. FRAWLEY: No.

MR. DAVIDSON: I think that is all with Mr. Maclagan. Has anyone else any questions to ask Mr. Maclagan before he steps down, on the financial statement?

THE CHAIRMAN: Or the breakdowns. You have nothing to ask about this Exhibit any more, from Mr. Maclagan?

MR. FRAWLEY: No, for the very good reason it has all been furnished for Mr. Cottle, who is in the process of examining it most minutely along with Dr. Frey. Like most of this marketing information it has got to be gathered up and analyzed by Mr. Cottle. It is largely a process of extracting information. Now, for me to ask a question here and there it is all right, but I see no very great point in doing more. It has to be most carefully analyzed and related between one company and another by Mr. Cottle.

F. A. L. Maclagan.
W. F. Wallace.

THE CHAIRMAN: There must be something more than an analysis of this. Are you accepting as a fact everything in this document?

MR. FRAWLEY: He is accepting everything he receives from this company as being correctly taken from their books. He cannot do any more than that, Mr. Chairman. He has to do that. They are verifying it under oath in any event.

WILLIAM FRANCIS WALLACE, (RECALLED:)

Q MR. DAVIDSON: What is that document I have just put in your hands?

A The tank waggon prices used by the Maple Leaf U. F. A. agencies in the Province of Alberta as at September 9, 1938, and revised June 1, 1939.

Q MR. FRAWLEY: They are the same as the Imperial Oil, aren't they?

A Exactly.

MR. DAVIDSON: We were asked to prepare them.

MR. FRAWLEY: That is fine.

THE CHAIRMAN: We will be glad to have them.

A I might say there is another change in the tank waggon prices this morning.

Q That is one we will be more interested in. What is the change this morning?

A Well, it went down in tractor distillate and tractor gasoline is reduced in price. Some places there is an increase of one-tenth. But just generally, I have only just got it and I have not had time to analyze the whole thing, but the prices we are using this morning are changed. The prices changed this morning.

MR. FRAWLEY: Mr. Halverson has made another edict.

W. F. Wallace.

Q MR. DAVIDSON: Let us get this clear. Have you any memorandum in regard to the price changes this morning?

A I haven't any in my possession. I do not know whether the office has sent it over or not.

MR. DAVIDSON: That may be here in written form before the witness gets off the stand.

Q THE CHAIRMAN: You say there is a price change this morning, as if you had nothing to do with it?

A No.

Q Other than to follow?

A We have instructions, that is all.

Q Who instructed you to make the change?

A The Imperial Oil Company. Mr. Halverson in Toronto, or through his office. The regular proceeding.

Q MR. FRAWLEY: Now, Mr. Wallace is offering a number of statements called tank waggon prices at Maple Leaf agencies effective September 9, 1938, revised June 1, ~~1939. I offer this as an Exhibit.~~

MR. DAVIDSON: There is no use putting this in.

MR. FRAWLEY: Oh, yes.

MR. DAVIDSON: This will include all the changes, will it not?

MR. FRAWLEY: I thought you had been asked for this for its historical value?

A Yes. We were going to submit that this morning. It was only because we got this other tank price this morning that you can eliminate that.

MR. FRAWLEY: Mr. Wallace offers tank waggon prices Maple Leaf Agencies, effective July 24, 1939, which I offer now as an Exhibit, containing 4 pages.

W. F. Wallace.

THE CHAIRMAN: Now, we are just dealing with Exhibit "513", Tank Waggon Prices, effective July 24, 1939?

MR. FRAWLEY: Yes. Let us mark that Exhibit.

(TANK WAGGON PRICES, MAPLE LEAF AGENCIES, effective July 24, 1939, NOW MARKED AS EXHIBIT "513".)

THE CHAIRMAN: I have a note, which is Tank Waggon Prices, effective July 24, 1939. Is it anything more?

MR. FRAWLEY: No, Sir. It has not even been marked yet.

(Page 11,927 follows.)

W. F. Wallace

C3
1

Q Now to put the effect of this very very briefly, these changes, on the record for the Commission, would you mind telling me----

THE CHAIRMAN: I suppose you are quite satisfied that the other material prepared is only of historical value because I have an impression for some reason you wanted it. Do you not think Mr. Cottle might want that.

MR. FRAWLEY: Then let us mark it, sir.

THE CHAIRMAN: It occurred to me it might be useful.

MR. FRAWLEY: Then I would offer a four page statement being tank waggon prices at Maple Leaf agencies effective September 9, 1938, revised June 1st, 1939. Now just let me state, you say it is revised, it really speaks then as from the 1st of June, 1939?

A We revised the deisel fuel prices only, Mr. Frawley, at that date. The other light oils were as September 9th.

THE CHAIRMAN: From what year is it?

MR. FRAWLEY: It is effective September 9th, 1938. That was the new price change, September 9th, 1938, and then it says "revised June 1st, 1939".

WITNESS: Revised deisel fuel prices only.

THE CHAIRMAN: Then what about prior to September 1938?

MR. FRAWLEY: There was a price drop in June.

WITNESS: There were two price drops in 1938.

Q MR. FRAWLEY: Let me ask you this, if Mr. Cottle desires to know at what prices you were selling petroleum products at all your agencies he can go to the Imperial price list for that agency?

A Quite.

THE CHAIRMAN: If there be one.

MR. FRAWLEY: If there be one and if there be no point-----

THE CHAIRMAN: There might not be at many points.

WITNESS: We can supply you the previous one for that without much trouble because we keep copies in the office.

THE CHAIRMAN: Anyway I suppose you might see Mr. Cottle and see what he does want. As I understand, Mr. Davidson, you will be willing to provide whatever is desired.

MR. DAVIDSON: Yes.

MR. FRAWLEY: What we will do with respect to this one, is perhaps not at the moment file it.

THE CHAIRMAN: I would say not until you find out what you want. September 9th, 1938, is giving you a small part of 1938 anyway.

MR. FRAWLEY: You are quite right. There are a few points where the Imperial has no agency, take Coutts for instance, Imperial has no agency and Maple Leaf has.

THE CHAIRMAN: We got from the witness MacLagan there might be a few points where they were not duplicated.

MR. FRAWLEY: Yes.

Q MR. FRAWLEY: I was going to ask you, let us say something here, take Edmonton, the tank waggon price on Three Star Gasoline at Edmonton has been 19 cents?

A Yes.

Q That is correct?

A Yes.

Q I find on today's price list the tank waggon price is 19.4 cents, can that be explained?

A I have not got, no, Edmonton was 19.5 cents to September 9th; it is the Three Star or was the Three Star price in Edmonton, Maple Leaf price, the standard price of house brand gasoline was 19.5 at Edmonton as of September 9th.

Q MR. FRAWLEY: Yes, I am sorry, you are quite right, 19½ cents and now it is 19.4 cents?

A Yes, 1/10 of a cent deduction there.

Q You at the moment are not prepared to say why that was?

A I would not make a statement, I would rather not make a statement.

Q MR. DAVIDSON: As to what?

A As to the reason for this or anything about it. I merely get my instructions to issue a new price list and I have done it.

Q MR. FRAWLEY: I have just a few general questions----

MAJOR LIPSETT: Mr. Frawley, would this be a helpful suggestion, if you got this previous price list that you have not put in at the moment and mark on it in red ink any amendments which have been made or any reductions which have been made.

THE CHAIRMAN: He is going to get one further back still.

MR. FRAWLEY: Yes, that is the one that I am concerned with.

Q MR. DAVIDSON: Before Mr. Frawley goes on, I think perhaps this is something which Mr. Cottle asked you for, what is in that document, Mr. Wallace?

A It is a list, condensed list or itemized list showing the stations of the Maple Leaf agencies owned and controlled by Maple Leaf, the U. F. A. agencies, the tankage, and all general information as to gallonage for the year 1938. We have the agency point in, how controlled, whether overhead or underground tank, whether they are on the railway site or not and the sales during 1938 and at the end of the list of Maple Leaf stations we show how the plants are owned and controlled and the number of them and it might be of some value to the Commission.

MR. DAVIDSON: That is something that I think Mr. Cottle asked you for.

THE CHAIRMAN: It will be Exhibit "514", and what is it called Mr. Frawley.

MR. FRAWLEY: It is called Maple Leaf U. F. A. Agencies and show how controlled, tankage, 1938 sales, it is what might be called a compendium of certain information put together, basically it is a list of the stations, basically that is what it is, a list of the stations and showing certain information as to the gallonage at each point. That is how it might be described.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "514").

Q MR. DAVIDSON: Here is something else I believe that Mr. Cottle requested, what is that Mr. Wallace, and that will go in as the next Exhibit?

A The prices to Maple Leaf as charged by the Imperial Oil Company for Maple Leaf Products, gasolines, oils and greases, as of January 4th, 1938. There was, yes, that is it, those are copies of letters?

MR. FRAWLEY: Maple Leaf price, prices to Maple Leaf?

A Maple Leaf.

Q Those are----

MR. DAVIDSON: The prices we paid to the Imperial Oil.

MR. FRAWLEY: Letters, Mr. Chairman, entitled Maple Leaf prices.

Q THE CHAIRMAN: They are what they paid Imperial?

A Yes.

MR. FRAWLEY: Yes, prices paid Imperial.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "515").

Q MR. FRAWLEY: Now talking about Exhibit "515", Mr. Wallace, they are, these letters "New prices from Imperial Oil,"and are dated respectively January 4th, 1938 and 10th August, 1938, now are you going to file something more recently than that?

A Yes, we have one dated July 6th, our light oil prices, to be effective----

Q What year?

A 1939, I beg your pardon.

MR. DAVIDSON: I thought that had already

gone in.

WITNESS: Do you want it separately?

MR. FRAWLEY: I think while we are filing these, Mr. Chairman, that Mr. Wallace should file the current revision of those prices although he has only one copy of the document.

THE CHAIRMAN: All right, it will be Exhibit "516".

MR. FRAWLEY: It is dated 6th July, 1939 and quoting new prices on the products quoted in Exhibit "515".

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "516").

THE CHAIRMAN: Anything more to file.

MR. FRAWLEY: Might I, at this point, Mr. Chairman, Mr. Clayton filed the other day a carbon copy of a letter, Exhibit "494", to Mr. Cottle quoting his, the North Star's new prices and I have here the original letter to Mr. Cottle, which bears the signature and the letter heading and I think it much preferable, if I might withdraw it and have Mr. Cutler, who was the reporter marking Exhibit "494", mark the original instead of the copy.

THE CHAIRMAN: You are just substituting the original for the copy?

MR. FRAWLEY: Yes.

THE CHAIRMAN: That is quite satisfactory.

MR. DAVIDSON: Mr. Frawley, that is all I think we have for filing.

THE CHAIRMAN: We will take our recess now.

(A recess of fifteen minutes was here taken).

C3
7

Q MR. FRAWLEY: Mr. Wallace, I only have a couple of questions, is this all you are going to file, Mr. Davidson, and is Mr. Wallace open for cross-examination?

MR. DAVIDSON: Yes.

Q MR. FRAWLEY: Mr. Maclagan said he felt that the losses of last year of $31,023.07 could be wholly attributable or could be largely attributable to the fact that you had to take price reductions last year in your selling prices, do you subscribe to that?

A I have a statement here which you can file if necessary, a statement of losses on inventory and cost per gallon, which shows that we lost on competitive discounts, inventory and price reductions, evaporation loss, loss in normal spread, amounting to $25,609.27.

MR. FRAWLEY: I think we should file that.

WITNESS: And showing how it is made up.

THE CHAIRMAN: That will be Exhibit "517".

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "517").

THE CHAIRMAN: And it may be shortly described as?

MR. FRAWLEY: As a statement of losses and inventory, is that a proper statement of it briefly?

A Yes, a statement of losses.

Q In inventory?

A In competitive discounts.

Q A statement of losses in inventory arising out of competitive discounts?

A No, a loss in competitive discounts, in drop of the tank

waggon that we had to meet.

Q THE CHAIRMAN: And losses in competitive discounts, Mr. Frawley said?

A Yes, and losses in competitive discounts.

Q MR. FRAWLEY: Well without analysing further into that statement, you say that is, you are submitting that to show that you operated, that your operating loss, most of the loss which you have taken was on inventory?

A $25,600 of it.

Q And on competitive discounts?

A Yes.

Q I wonder, to explore that a little more briefly, a jobber is in a position where he is buying and selling on spread, and he has to take a loss of inventory if the person making the price and from whom he purchases, makes the reduction in the price, and then he has, he has no voice, he is just in between and he has to take losses which follow upon a drop in price and he gets the gain which follows upon an increase in price?

A Exactly.

Q And if his spread, and the spread does not, why do you not have a tank waggon, why do you not have a spread, why does not the jobber have a spread that fluctuates with the tank waggon price?

A Well it would be very nice if we could get that. If we were able to negotiate a contract like that but I am not in a position to negotiate. The price is set up by the Imperial Oil Company at which we buy.

Q There have been contracts like that, whereby the spread re-

mained 6 cents or 5 cents or whatever it is regardless of the change in the tank waggon price?

A I cannot say, Mr. Frawley.

Q You have never had one like that, the Maple Leaf has never had one like that from the Imperial Oil?

A Not to my knowledge.

Q So you operate on a 6 cent spread and run the risk of a drop because every time there is a drop in price you suffer a loss?

A We have the tank waggon price at which we buy and if there is a drop that is the loss.

Q So you are gambling that the reductions in the tank waggon price will be offset by increases in the tank waggon price?

A We just have to take our loss or gain as it comes about. If there is a drop in tank waggon I have to take my invoice loss, and if there is an increase I take my increase. Unfortunately there were no increases last year.

Q It seems to me you are bound to have a loss on every gallon you have on hand at the time Mr. Halverson makes a decrease it is bound to be a loss?

A Yes, if it is a drop.

Q If he were dealing with this U. F. A. direct, he would have a similar loss because he values his inventory-----

A I imagine that the marketing department of the Imperial Oil buy on a certain basis although I do not know.

Q We are told that there is no buying, there is no billing from the refining department of the marketing department but at the end of the year when they are making up a statement to show what their operations were, they take into account, just as you have had to do, what they call the

loss on inventory because they put a value on them, now I want to ask you something else----

Q THE CHAIRMAN: What useful purpose, if any, do you serve by intervening yourself between the Imperial Oil and the U. F. A., so far as the public is concerned?

A I would preferred that the U. F. A. should answer that better than I can because I did not have the making of that. I have nothing to do with the original contract. I do not know what reasons were put forward either for or against the making of the contract. I merely carrying on the contract.

Q You cannot give us any reason which would justify your existence?

A I can probably give reasons for the existence of the jobber.

Q What is that reason, we would be glad to have that?

A I have prepared a memorandum, Mr. Chairman, whether it can be submitted to you as an Exhibit----

Q MR. FRAWLEY: Might I ask a question there before you read that, if you did not intervene between the U. F. A. and the Imperial, is it not a fact that there are certain duties which you now perform that the U. F. A. would have to assume?

A Someone would have to assume them but I imagine the U. F. A. such as auditing the stations and so on.

Q THE CHAIRMAN: Quite so, if you did not do it I suppose the Imperial could do it but what I want to know is why this company intervening, they are merely, they are without voice or say-----

MR. BROWNLEE: I have a question to ask but probably I had better wait until my own time.

WITNESS: As I say, Mr. Chairman, I would not be in a position to answer that because I have no knowledge of what the original idea was in making the contract between the U. F. A. and the Maple Leaf Petroleum.

Q THE CHAIRMAN: It may be that it is because it is costing no one any more than if there was direct dealing. It may be that there are advantages too, but I just want to know what they are?

A Well there are certain-----

THE CHAIRMAN: We have not come to any decision that you should not exist but we want to know from you why you think you should.

Q MR. DAVIDSON: You said you had a memorandum Mr. Wallace; it answers one of the questions which the Chairman asked and I think this is a memorandum you prepared in anticipation of just the question as to the place of the jobber in the industry, I mean after all, Mr. Wallace----

A We believe we have a definite place in the industry as a jobber.

Q MR. FRAWLEY: You have, in answer to the Chairman's question, you have more than an answer, you have a memorandum which you would like to read, is that it?

A Yes.

THE CHAIRMAN: We will file it first, it will be Exhibit "518".

(MEMORANDUM PRODUCED BY WITNESS HERE MARKED AS EXHIBIT "518").

WITNESS: I headed it "The place of the jobber in the petroleum industry", and in respect to your question, Mr. Chairman, I would say it is a very important one to answer and many things have to be taken into consideration by the person answering it. I cannot say that I am in a position to answer the question to the full extent it should be answered as I have not been able to give it the proper study that a question like this should have. However, I have prepared a short memorandum but, before reading it, if you desire me to do so, I would like to point out that the thoughts expressed therein are entirely my own.

I would say that the jobber, for many reasons, has a definite place in the petroleum products industry as it has in the industries pertaining to many, if not all, other commodities. Referring to the Company of which I am manager, I would say that inasmuch as we had a refinery operating until recently in the Province of Alberta and thereby had established through that refinery a brand name "Maple Leaf", at considerable cost, and created a demand for products sold under this name, and inasmuch as we have a contract to supply the U. F. A. Central Co-operative Association with its petroleum requirements, with termination date three years away, it is my contention that that alone would justify our existence in the jobber business.

We must remember that the jobber is not something that has sprung up overnight. In fact the jobber has been in the oil industry in Western Canada since its inception. All oil companies doing

business in Western Canada today, with the exception of the Imperial Oil, Limited, were originally jobbers, although one or two are now operating refineries of their own. It is probable that through the discovery of the Turner Valley oil field in our midst there may be a greater number of jobbers in this Province than in other Western Provinces. It must be remembered that a large percentage of the people who elected to go into this business, and it is a legitimate business, and invested their money in it, are, through efficient management, in business today, and it must also be remembered that almost one-half of the distribution of petroleum products in this Province is done through the jobber.

Unless, therefore, it can be shown that by elimination of the jobber the consumer would benefit, not only from the point of view of prices but also from the point of view of quality of products and service, then the jobber should not be disturbed. I am convinced that the consumer benefits in price, quality and service by reason of the jobber being in business, and would definitely say that so long as the service to the farmer consumer and to the motoring public is not in excess of public convenience and necessity, this type of "jobber" would appear to justify his existence in the picture.

To eliminate the jobber would eliminate most of the competition and create something like a monopoly. We have lots of examples right in the Western country to show that competition steps up quality and service and reduces the price. True, monop-

olies may be regulated and are regulated to some extent. It is not easy, however, to regulate them as to service and quality of products, and the result of regulation is not as satisfactory as the result of open competition.

To eliminate the jobber would have the tendency to drive existing jobbers into the refining business and by reason of duplication in the refining end, with many expensive plants operating below capacity, the results of duplication might easily be much more serious than the present duplication of small distributing plants at certain points, in that the cost of manufacturing would undoubtedly go up.

The jobber buys his goods at a competitive price and sells at a competitive price. He performs a service that must be performed by some one. He works on a small margin and to make a profit he must merchandise economically. It has been said that, inasmuch as the jobber makes a profit, if the jobber were eliminated, this profit would be passed on to consumer--- would it? It seems to me that this is very superficial thinking. Eliminate the jobber and the manufacturer must extend his distribution system of plants and selling organization; he must invest capital in this and he would naturally expect that capital to earn dividends and those dividends would correspond to the jobbers profit.

It may be suggested that because the Maple Leaf is a wholly owned subsidiary of Imperial Oil, Limited, that it does not buy on a competitive basis. It is quite clear that independent jobbers

do buy on a competitive basis, and, as a matter of fact, Maple Leaf buys on the same basis as independent jobbers. The fact that the Maple Leaf is a wholly owned subsidiary of the Imperial Oil, Limited, does not affect the principle that the jobber has a definite use. If the Maple Leaf, as an independent, could serve a good purpose, then Maple Leaf as a wholly owned subsidiary can and does serve the same purpose.

I am not prepared to admit that at points like Leduc the duplication in distribution facilities raises the price to the consumer, but if it can be shown to do so, then the cure should be local and not general. If evils have crept into the system of jobbing by all means correct them, but, in correcting them, do not wreck the whole system and leave the industry liable to evils which might be more far-reaching.

At the risk of repeating, I would like to point out that by eliminating the jobber and placing the distribution entirely with a few manufacturers, it would have a tendency not only to drive present jobbers into manufacturing, thereby increasing the number of expensive plants, which operating at part capacity would increase the manufacturing costs. Such a procedure would not only stifle competition but would also have a tendency to increase the importation of foreign products. There would be nothing to prevent present jobbers from bringing in larger quantities of Montana products and thereby decrease the consumption of Alberta crude. This in turn by reason of the lesser volume would increase not only the cost of production but

also the cost of refining.

I believe that an efficiently operating jobber has a distinct advantage over management by a distant refiner by his community contact, greater economy and better relationship with his dealers, because, by being under his personal supervision and the fact that the jobber's responsibility does not end with the selling of a tank car of gasoline in the same manner that it sometimes does in the case of a refinery.

The mere fact that the jobber has to operate on a small margin makes it necessary for him to educate himself to keep a jump ahead of his competitors, and that in doing so there is no doubt in my mind that the inefficient would be forced out and only the efficient remain and prosper.

It is easily understood that you cannot depend on legislation to help over the rough spots. Laws should never be used as a protection for inefficiency because the country's whole welfare depends on efficiency of the individual.

To throw the distribution of petroleum products wholly on to the refineries would be a retrograde step. This is recognized in the United States where there is a bill now before Congress which, if it passes, would take the refining companies entirely out of the marketing business.

W. F. Wallace

Q MR. FRAWLEY: Mr. Wallace, this very full statement, surely you will admit this that in Leduc or in any other place you take, and this may be a very big if, but if the Maple Leaf gallonage could all be turned into the Imperial Oil station that it would be a saving to the Imperial Oil to eliminate the Maple Leaf at that particular place and run the gallonage through its own service station?

A In the first place, Mr. Frawley, it is a very big if. I do not believe that could ever be done.

Q In other words, what you say is if the Imperial Oil closed up the Maple Leaf station at Leduc today, with the gallonage they had up there last year, they would not keep for themselves all of that gallonage? How far short of all would they keep for themselves, do you think?

A That is a rather tall question to answer, to make a guess at what percentage of the Maple Leaf business would go to the Imperial Oil. That would depend entirely on many different things. Some farmers deal because they like the agent. Others deal because they want to deal solely with the U. F. A. agent. They are U. F. A. people who believe in the organization and they requested that agency would be operating there and they might resent the fact of having to go to the Imperial.

Q I quite agree that there is a further complication. But really my question was directed to you as a jobber, apart altogether from your U. F. A. connection. I suppose there is a great deal of personal element in the U. F. A. business which your company enjoys?

W. F. Wallace

A There is a personal element in all agencies as to whether one farmer may want to go to any particular agency because of his like or dislike of that particular agent who might be handling the product.

Q Suppose you had no U. F. A. connection at all and you were operating all these agencies, well getting back to the one at Leduc, and it was possible to close up this marketing arm of the Imperial Oil and operating it all as the Imperial Oil, would the gallonage go elsewhere than the Imperial Oil?

A It undoubtedly would go some place. Some of it undoubtedly would. We all know that when we close an agency that the gallonage spreads.

THE CHAIRMAN: It might.

A It might spread.

Q One can see that readily, but would there be any less oil sold in Leduc, I care not by whom?

A No.

Q No less oil?

A No, I cannot see that there would be any less oil. It would naturally mean that the Imperial who have not got the added gallonage would have to add to their equipment facilities for handling the product, in peak seasons. There are two seasons of the year when all our agents are driven and are working many hours a day in trying to deliver to the farmer or serve the farmer for the rush season. And they would have to add to all their equipment, including that at Leduc and all over the province, if there was elimination of certain jobbers.

W. F. Wallace

Q One can see that the Imperial Oil Company or any other company could fill every town with its subsidiary companies and there would be no room for anybody else in the business. They might fill them. But that does not touch upon the question of the cost to the people who are using the product?

MR. FRAWLEY: Yes.

Q THE CHAIRMAN: There would be no less oil sold in Leduc. You say the Imperial would sell this oil. That is all right. That is holding a brief for the Imperial. But surely the point is that the same oil would be sold in Leduc to consumers who are served by the town of Leduc and it might be done at less cost by the elimination of intervening agents and perhaps it should be done. That is what I would like to hear about. Perhaps it should not be done. But it cannot be discussed on the basis of how much the Imperial will make. Everything it makes some other company loses, and everything it loses some other company gets. All right. What about the people?

A We believe that by eliminating possibly the Maple Leaf in Leduc with the increased cost to the Imperial Oil Company there could not be any saving made by eliminating ourselves, or eliminating any one jobber. Because they would have to get a larger number of drums and larger facilities and warehouses and probably employ more commission agents and pay more commission.

Q That seems to be the point. You say there has got to be, if jobbers are eliminated, there must be more capital expended by the principal company?

A There would have to be?

W. F. Wallace

Q And they are entitled to a fair return on that invested capital?

A I believe they are.

Q And it is within that range that the jobber manages to exist and make his own profit?

A Yes, he has to.

Q And so the consuming public pays no more?

A We do not believe they do.

Q That is your real answer?

A That is my answer.

Q For what it may be worth, that is the answer?

A Yes.

Q MR. FRAWLEY: It is anyway an indication that the Imperial Oil would need to increase the number of their tank wagons and the number of barrels. Does not that presuppose the views you make?

THE CHAIRMAN: Is it not better to put it to him, if I may suggest, that all those who are in Leduc now, with their service stations and barrelage and tankage, could not handle all the business at Leduc?

Q MR. FRAWLEY: Yes, getting away from the Imperial.

Supposing it meant that they must or that they might lose gallonage. Some would gravitate to the B. A. and some to the Imperial, that each and every one of them would have to increase their facilities to handle that extra business?

A If there was the elimination of one company the balance of the companies would have to increase their expenditure

W. F. Wallace

and their equipment. Is that what you mean?

Q That is only so if they are now working to capacity and that could not be so, that they are working to capacity?

A In certain seasons of the year, just as I stated, they are, for months they are working night and day. So you must keep the equipment to handle that business then.

Q That is a situation that we have in the petroleum industry that for a few weeks in the year they are working fairly to capacity and all the rest of the year must stand for that two or three weeks?

MR. NOLAN: May I interject a moment? This discussion is proceeding along the line that one jobber is eliminated. That was never the original suggestion made by the Commission. The suggestion of the Commission was "Supposing we did not have any jobbers at all. Nobody has a jobber, and then what would the situation be?" Because several of the Witnesses in reply to the Chairman said "We have jobbers because the other man has jobbers. We cannot give up the jobber because if we did he will have his jobber left to him." The Commission said "No, that is not the point. The point is we do not have any jobbers at all, then what is the situation?".

THE CHAIRMAN: Quite so, Mr. Nolan.

Q MR. NOLAN: Take Leduc. It does not do to eliminate the Maple Leaf. We have to eliminate every - for the purposes of this discussion -every jobber in Leduc?

W. F. Wallace

MR. FRAWLEY: We eliminate the Maple Leaf and the Great West Distributors.

MR. DAVIDSON: And the North Star.

MR. FRAWLEY: And the North Star?

MR. DAVIDSON: And the Gas & Oil.

MR. FRAWLEY: No. They are direct.

THE CHAIRMAN: This man is speaking about himself, but his answers would apply equally to any other jobber that would be there, I take it?

A It was meant in that manner.

MR. NOLAN: What happens to your distributing facilities when you eliminate all the jobbers in Leduc? Have you enough to carry on with? That is the point I am making.

Q MR. FRAWLEY: If you know Leduc, we will talk about that as an instance. Visualize the situation that you and the North Star and the Great West Distributors go from Leduc and no other jobbers go in to replace them of course?

A That is only a supposition, and because you have got your tank truck drivers bringing in goods from the United States, from Montana, and selling them on the streets of Leduc at the present day. I do not mean the 24th of July, but quite recently I had a call from my agent and he said "Is there anything we can do about this? Here is a man who has come from Montana with products and the farmers are going right up to him right in the town limits of Leduc." If you eliminate the recognized jobber who is paying your taxes and doing business in a legitimate manner, I believe,

and I believe I am correct in saying this, that the importation of Montana products might be greater, because we have people in Western Canada who do not desire to purchase from the larger companies and create as they see it a monopoly in the fact that they can only buy there. In 1921 I started with the British American Oil Company in Saskatchewan. We were new in there. We helped to build it up. They were a jobber. I would go there and say to a man "How would you like to handle my agency?" "Who are you with?". And I explain. "That is just fine. We will be glad and tickled to death to have the privilege of buying from someone else." Competition is still competition and it is getting to be greater today than what it was then. But it is still competition.

Q MR. COMMISSIONER LIPSETT: Must not there be something too expensive about either the refining or the distribution in Alberta if a man can go down 200 miles south of Calgary into Montana and buy petroleum products there and pay the duty coming into Canada, and haul it this 200 miles back, that is 400 miles extra, and compete with your company or the Imperial Oil in Leduc?

A Mr. Commissioner, I was down in Saskatchewan last week, at Rosetown, and I saw 7 trucks in the Rosetown vicinity with Montana products. Naturally, I took an interest in it. It is not only the Leduc situation, but up to Saskatoon and up to Prince Albert in Saskatchewan they are going in with Montana products. I cannot answer your question if there is anything wrong with the refinery system in cost. I have never been in the

refining end of it. I believe you have certain figures submitted by Mr. Halverson or various other gentlemen in that end of the business. But I do know you can buy it in those towns. The fact that they are selling their gasoline down there to the Canadian jobber or Canadian trucker at just exactly the price they can get for it and they are maintaining their own price in their own State, the regular price they are using.

Q MR. FRAWLEY: When you saw those products, Montana products, all over the Province of Saskatchewan?

A I saw them down in Rosetown.

Q They were not products brought in by the Texas Company of Canada who apparently can lose a lot of money and still go on?

A I believe they were independent jobbers, or independent truckers. Do not call them jobbers. Call them truckers.

Q Whose operations it would be fair to assume would be successful operations insofar as the difference between profit and loss on bringing in the goods?

A I presume he is making a living. He would have to be or he would not be able to keep going.

Q You do not think it is because there is anything wrong with the price structure in Alberta that enables Montana products to come in?

A I would not say that. I do not know enough about the refining end. I am not discussing the price structure. I do not have the knowledge to answer that question.

Q MR. COMMISSIONER LIPSETT: But leave out the refining. Must not the marketing and distribution system, with all

this duplication, must it not be too expensive, if that could happen at Leduc or in a much further away area that you now say it can happen?

A If you can go and buy a product, no matter what it might be, at a price, by reason of the fact that someone wishes to get rid of this product in order to keep his refinery going and is willing to sell you that product at 3¢ or 4¢ below what it should be sold at in order that he can take the over-all picture of his refining, there is no telling how low that price can go, and it would be impossible for the Canadian refiner or jobber to meet that competition. They are buying the product down there at 5¢ a wine gallon and the people doing the trucking, they are not getting the same rate as we pay them for trucking. They are out to make a living and when one goes broke, as the term might be used, someone else buys a truck and goes right into business and carries right on. They are very numerous this year.

Q The refinery product in this province has to carry a load of 6¢ a gallon in some point like Leduc where the Imperial Oil has their own agency as well?

A It is not exactly carrying 6¢ to me. I am buying on a competitive basis. He would have to, as I endeavor to point out, increase his facilities in order to eliminate me. He would have to do away with my equipment, which would be a great loss and probably close up my establishment, or any other jobber. You would have people out of work and one thing and another. There are many things to take into account. He would really have to increase his

W. F. Wallace

equipment to the extent it would be necessary for him to increase his price in order to get a profit on it and a return for the use of the equipment.

Q How do you say you are on a competitive basis?

A Because it has been shown to the Commission that my prices are similar to those of the North Star or any other jobber that the Imperial Company sells to. I believe I read that in the paper.

Q As far as the Imperial Oil are concerned, they charge you the same price as other jobbers. But can you go to any other refiner and buy your product?

A No, I cannot.

Q Can you bring any competition to bear on the Imperial Oil so far as your company is concerned?

A No, I am afraid I cannot. As far as going out and using another price or anything like that, I get my instructions as to what price I shall sell at.

Q As far as you are concerned, is there any competition of any sort whatsoever. Does not the Imperial fix the price it gives to you and any other jobber?

A I do not know about the other jobber. They give the price to me.

Q Is there any competition of any sort?

Q THE CHAIRMAN: Do they tell you at what price to sell?

A Yes.

Q That is to say, you are to meet competition wherever you are in business?

A That is correct.

W. F. Wallace

Q MR. BROWNLEE: Is it probably true that much of the cutting you refer to from Montana is done by the man who has a truck and does not seek to get any fixed return on that truck and pays no taxes but is here today and gone tomorrow?

A He is merely a trucker who more or less lives in his truck. He sleeps in it. He goes and disposes of his load to the best advantage. Sometimes he has former contacts, but other times he will go and peddle it around the country till he gets rid of it and he goes back and gets another load.

Q The same thing as any other business, the coal business, for example?

Q MR. COMMISSIONER LIPSETT: That would mean there is no real commercial competition. Simply an isolated case of a man with his own truck running at a loss?

A He does not always run at a loss, Mr. Commissioner. He endeavors to make a profit. But if he gets stuck with a load, as sometimes is the case, maybe owing to bad roads, he will do just exactly what the refiner did to him. He will sell it off at a lesser price at some point. I recall at one place where five truckers were held up by bad roads and I understand they disposed of their products at low prices because they were stuck there and could not move. That causes dissention among oil agents. They want us to meet competition and we cannot do it. We have equipment to pay for. We have the employees to keep up and the equipment, and it is a considerable cost, but I do not think it would be any more, I say I do not think

W. F. Wallace

it would be any more because probably the Imperial Oil Company would have to increase their equipment and employees if you were to eliminate the Maple Leaf Petroleums. That is my contention.

Q MR. DAVIDSON: As to whether you buy it in a competitive market or not. Do you know whether your parent company, the Imperial Oil, supply a great many jobbers besides yourselves?

A Do I know whether.....

Q Whether they do supply a great many jobbers besides yourselves?

A I understand from the evidence that Mr. Halverson gave which I read in the paper, that they do.

Q You are the only wholly-owned subsidiary that you know of?

A Mr.Halverson made that statement, yes.

Q I would be probably correct to assume that other jobbers buy at competitive prices?

A I should think that the other jobbers bought their products at competitive prices.

Q You know that you pay the same price as those who do buy at competitive prices?

A I believe that is the case.

Q Getting back to Leduc for a minute. Let us assume you break your contract with the U. F. A. and close up your plant at Leduc. Who is going to say where the greatest part of your gallonage would go to?

A No one.

Q Whose gallonage is it now, practically? It is the U. F. A. gallonage?

W. F. Wallace

A It is the U. F. A. gallonage. And the U. F. A. would like to stay in business. The U. F. A. would probably stay in business there and probably they would make other contacts, with the British American or down in the States.

Q If in the change-over they should lose some of it or not make any further contacts, is it not possible that some of that gasoline might go to someone not in Leduc at all? Is not that the history of that sort of thing that the companies already doing business there cannot expect to get it all. A new person. I am not saying you are put out of business but you voluntarily go out of business. Is it not reasonable to expect that somebody else would come in if you went out?

Q THE CHAIRMAN: That is assuming that any jobber was allowed to come in. The problem we are discussing is whether or not the jobber should be eliminated entirely. It may be that there is precisely nothing in that. But there is no use of exploring it by saying "If you go someone else will come in," because there would be no one else allowed to come in, if the other theory were accepted. There would be just no jobbers.

MR. DAVIDSON: A question was asked as to what would become - and we can only speak for our own company - what might become of our gallonage, apart from the question of the jobber's existence altogether. The question was asked what would become of our gallonage if we discontinued in Leduc. A good deal of it might go to someone who is not there at all.

THE CHAIRMAN: Sure it might.

W. F. Wallace

Q MR. COMMISSIONER LIPSETT: How would it go to anyone else? Assuming that the Imperial Oil Company gave 3½¢ to the U. F. A., that they are getting today at Leduc, and used the remaining 2½¢ to go to the general reduction in price?

A I beg pardon, Mr. Commissioner, would you mind repeating that? You said if the Imperial Oil Company gave the U. F. A 3½¢ which they are now doing. It does not work out to 3½¢ on all products. But let us take 3½¢ on all main products, and then use the 2½¢, which you refer to on the 6¢ spread which we get, and make a reduction. The U. F. A. could not carry on business.....

Q Just a moment. Now to go to the benefit of the general public, the consumer. What is gained in reference to this U. F. A. contract by giving you this 2½¢ on the gallon over and above what the U. F. A. gets?

A It must be remembered out of the 3½¢ that the U. F. A. gets, they pay their agent's commission of 2¢. And they are down to 1½¢. Actually it figures out about, their average commission payable to the U. F. A. over and above the agent's commission, after it is deducted, is approximately 1.2¢. The U. F. A. nor any other organization can carry on the work we perform for that 1-2/10ths cents per gallon. The spread would have to be increased in order for them to set up an organization such as the Maple Leaf Petroleums have set up for the auditing and carrying on and over-seeing of the general policy as we do.

Q I am not criticising or discussing this 3½¢ to the U. F. A. But you have gone off on the other leg. I am asking your

views about the 2½¢, between the 3½¢ and the 6¢. That goes to you while the Imperial Oil Limited have a marketing system of their own, just exactly like you have?

A They would have to increase their marketing organization and auditing and barrels and so on to take care of that added gallonage so that 2½¢ would be probably be taken care of right there. It is either a case of where they might pay it to the Maple Leaf or pay it themselves. It would have to be expended some place. They would have to increase their facilities and staff, if, in the first place the U. F. A. wanted to have it that way. I do not know in the first place whether they would be agreeable. They probably would have something to say about that.

Q You mean that the U. F. A. might say they would not deal with the Imperial Oil, but they would deal with its wholly-owned subsidiary?

Q THE CHAIRMAN: And if so, why?

A Well, probably Mr. Priestley might answer that question. I would prefer that they would answer that.

Q MR. COMMISSIONER LIPSETT: Just following that up. There is another point. You started off with your own refinery?

A We started off with the Maple Leaf refinery.

Q You made a product which became known to the public as a Maple Leaf product?

A That is correct.

Q When you were taken over by the Imperial Oil, the public was still left under the impression that it was the same brand

W. F. Wallace

they were getting under the same trade name?

A Well, the refinery kept on. You refer to when the refinery was closed.

Q Yes?

A We used our own brand name, like every other firm or organization that is selling anything to the public. You have a brand name.

Q But from then on they got the Imperial Oil product. It might be better or worse?

A From then on we received products from the Imperial Oil refinery in Calgary.

Q Once they closed down your refinery and concentrated on manufacturing all in the one refinery, that presumably would mean a saving in cost, would it not?

A I do not believe, Mr. Commissioner, I can answer that question. There were certain reasons for closing down the Coutts refinery. They were going to Turner Valley crude to get away from Montana crude and just what other ideas or what was their objective I would not be in a position to say. I am sorry I cannot make any comment on that. I do not know.

Q At the same time, would not the economical way have been to take all your distributing points which were used for your own manufacturing into their ordinary marketing system instead of keeping on a separate organization?

A Mr. Halverson, I think, answered that by stating that we had a certain amount of equipment that they had purchased and they wanted to try and make that equipment earn some dividends and pay for itself, and therefore they decided

to keep the organization in business. We had a certain amount of gallonage we had secured from the start of the company, the Maple Leaf Refining Company, and a certain amount of agencies and a certain amount of employees. I think Mr. Halverson covered that in his statement, if I remember correctly.

Q Would that all equally happen if the Imperial carried it out under their own marketing organization instead of having two separate organizations?

A I did not get that question.

Q When they took you over and had all these stations and this capital that they wanted to pay for, could not they equally have done it and more economically if they had taken it within their own marketing organization?

A I presume they had their own reasons for leaving this Maple Leaf Petroleums as a marketing organization and we were glad it was left like that. I cannot make any comment on what the reason was or whether it was more economical or not. I cannot say.

Q There is no reason that you can give?

A I would not be in a position to give what I would say would be the correct reason.

Q No, but when you talk about competition, apart from the British American Oil Company, what real competition is there in this province?

A We have the Gas & Oil Products who are climbing quite rapidly. And Mr. Plotkins is opening out I do not know how many agencies, but he is opening out. There is the Montana situation that has to be taken care of. I do not

W. F. Wallace

know how many other companies may or may not be contemplating building refineries. Mr. MacKenzie of the Great West does a large business and no doubt he could make arrangements with some refinery or build his own. I presume he has had that thought in mind owing to the fact he is a large marketer of petroleum products. And you might take all these refineries starting up. There might be a duplication of refineries rather than a duplication of a small plant. A duplication of one million dollars as against a duplication of a couple of thousand dollars in making another plant?

Q You think that is something in the nature of a potential menace at all events?

A We do know that the Gas & Oil Products that they are building a plant just now to make their own House Brand and their own Ethyl gasoline. That is in the course of construction in Turner Valley at the present time. As they build up they will naturally look for more gallonage and they will be in direct competition with British American and Imperial, and Mr. Plotkins with his Lion Refinery. And you have skimming plants down in the Valley. The Becker Oils. They have a little plant down here in Okotoks. I do not know whether it is working or not. They had one in Red Deer. And people are going around endeavoring to get money to build more refineries like in the Province of Saskatchewan where there is about fifteen of them down there now.

(Go to Page 11,961)

little refineries that are making products from crude brought in from the United States and a great many others.

Q MAJOR LIBSETT: Does not the history of your own company show that that competition does not seem to be very serious and it can be eliminated by the buying out or freezing out or something?

A Well, it might be possible, I would not want, there are some of them still working and many of them still operating in the Province of Saskatchewan.

Q What jobber, in practice, in this province do you think now could give up handling the Imperial products or British American products?

A What jobber could give it up?

Q Yes.

Q I do not know of any jobber that would want to give it up. I cannot answer that for any other jobber, if I got your question correctly, I cannot answer for the Great West Distributors or the North Star. They both have a nice jobbing business which would be very acceptable to some other refinery than the one that they are presently doing business with, whatever may be the case.

Q All those jobbers are tied up in some way, similar to yourself or somewhat similar; is there any real competition then as between getting prices down or getting prices fixed so far as jobbers are concerned?

A I think Mr. Halverson made the statement that we were a wholly-owned subsidiary or the only subsidiary that they had any interest in; presuming that the other ones are independent and that they could probably make other

arrangements elsewhere with other refineries, other than the one which they are presently buying from; possibly they would if the price basis on which they were buying is not favorable and would not allow them to make a living and make a profit on their business. They have built up a large gallonage. They have given service to the public at large ---

Q We had the case a few days ago of a jobber who owed the Imperial Oil Company over a million and a half dollars, would you say that a company like that would be free to go and get competitive prices?

A I cannot make any statement, I am not in a position to say ----

MR. NOLAN: Mr. Commissioner, the witness said that he could discharge that indebtedness to that company and deal elsewhere if the situation arose.

MAJOR LIPSETT: I do not think he quite put it that way. He said he might be able to get somebody else who would give him the money.

WITNESS: Well, I prefer not to make any comment on that.

Q MR. FRAWLEY: Mr. Wallace, you seem to be relying on the fact that the other people, the North Star, do get a competitive price and you simply get their prices?

A Yes.

Q When you consider that the laid down cost of the Texas Company's gasoline at Calgary at the present time is 12.934 cents, with a refinery price of 6¼ cents, U. S. gallon, or 7½ cents Imperial gallon, duty of 1 cent, freight of 3¾ cents and sales tax of .68 cents, or a total laid in cost

at Calgary of Fire Chief gasoline of 12.93 cents, how is it competition by selling it to you at ten cents, that is what bothers me?

A How is the competition selling it to the North Star ---

Q Or the North Star?

A Because we have nothing to do with the setting of the price.

MR. BROWNLEE: Repeat your question.

MR. FRAWLEY: I say if it costs the Ethyl Company 12.93 cents to lay in Fire Chief ---

THE CHAIRMAN: The Texas Company you mean.

Q MR. FRAWLEY: The Texas Company to lay in Fire Chief at 12.93 cents, why does the Imperial sell it to you at 10 cents?

A Well I cannot answer why the Imperial.

Q Or to the North Star because I think we will have to take you as following on perhaps, and see what we can make of it then, take North Star, Union, McColl Frontenac, is it wholly because they are potential refineries?

A Mr. Frawley, I cannot answer the question why the Imperial Oil Company does something. It would not be right for me to answer the question.

Q Then let us go back to your company; I would think that, even though the North Star might be entitled to a ten cent price because they are a potential refinery and I think it is a fair assumption on their evidence, that that was the cause of the low price to say Mr. MacKenzie, 10 cents or 11½, because he is the potential refiner, the North Star pays ten cents to the Imperial because they are a potential

refiner, but you are not surely, so why is the Imperial selling to this wholly-owned subsidiary, that, I presume, it has no intention of setting up in the refining business but even if they were, it would be its own act, why do they sell to you at 10 cents?

A Again I must plead ignorance of why they do it. I do not set the policy as to what we should pay or what they should charge. I am merely a salaried employee carrying on my instructions that are sent to me from time to time but really ---

Q Now, I want to discuss one other thing with you and that is in connection with the Ethyl contract ---

THE CHAIRMAN: Well?

MR. FRAWLEY: I am sorry.

THE CHAIRMAN: Before you leave this while you do not have anything to do with the policy of your parent company, as I understand you, yet you have some personal knowledge, derived from years of experience, in the oil business; now is it not, is there not something wrong about there being no standardization of oil products, no grading, and what reminded me to ask you that question, I may tell you, is, it was brought out in your examination that here you have built up a brand, you are selling a product under a brand and you calmly sell something which is a different thing, under the same brand, without any notification to the world. Now do you think that should be allowed to continue, that people can take a brand by name and then sell anything they like under it?

A Well that would be true in all commodities whether it be

bread or butter. If we made a brand name, we have a brand name that we can sell; if we were able to assure the U. F. A. Central Co-operative that the products that we supplied them with would be similar in quality to all others ----

Q It would come up to a certain standard?

A Yes.

Q I am not worrying about the U. F. A. getting hurt I have no doubt that they would watch their own interests in that respect and I have no doubt the Imperial would, and that they would come to an arrangement which would be perfectly fair to both sides but I am just talking about the principle of the thing and I am not asking you now to speak as the mouthpiece of your parent company but here you are as an individual, do you think it all right that gasolines are sold all over this country and everywhere else under, without regard to any standards and inspections to determine that those standards are lived up to?

A I would say in answer to your question, Mr. Chairman, that anyone who is the manager of an oil company that established a brand name would be very jealous of that name and he would endeavor to the best of his ability to always produce a product for resale that was as good as possible as he could produce it at. He would endeavor to have specifications, to keep constant check on the quality of the product and the minute he got complaints he would go to the refiner and say "Now I am selling this out under Maple Leaf,' we will use that as an illustration, " and I have had certain complaints. I have had your product tested and there is

probably somethin wrong with that last tank car you sold me. What assurance can you give me that you will not do the same thing again." And if the refiner is able to assure me that there might have been something wrong, give me some good reasons for its being off, then the man goes back assured that his brand name is going to be protected by the selling of an oil product, as it would be by the operation of selling any other product. "I am going to give you my products equal to if not better than any other products." I would say if a jobber could, selling under his own brand, get that assurance and he believes it to be reasonably accurate, then he is going to put out for sale a product which is equal to if not better than his competitors' products and then he is going to see that there is nothing wrong with his product and that it is an established product.

Q Let us say he is putting out the very finest product and he has sold it under the name of anything you like, Maple Leaf if you like, now what is wrong in saying, "All right, the Maple Leaf is entitled to be known as grade No. 1 of gasoline and every other manufacturer in the market who has as good a gasoline is also entitled to have the government stamp of Grade No. 1 but those who are not entitled, because their product has not reached that degree of excellence should be graded as Grade No. 2", what is wrong with that, there may be something very wrong and if so I want to know; if you cannot come up to the standard of excellence which has been set for Grade No. 1, then why should not the world know that you are selling a Grade No. 2 product and you should not get the Grade No. 1 price?

W. F. Wallace

A Let us assume that a refiner makes what he calls his No. 1 product, he would make it in competition as nearly as possible to other refiners, and then he puts on it a certain stamp of octane rating; if he ethylizes his product then he has the Ethyl Corporation watching him to see that his product is up to the standard. If it is not within the octane rating or the specifications rating of the No. 1 products then he cannot call it a No. 1 product --

Q MR. FRAWLEY: I do not think you are following the Chairman's question. I think the Chairman wants to have your views on standard?

A I would say it is necessary to be, a good thing to have a standard product and all companies keep within a certain rating.

Q THE CHAIRMAN: That is all I wanted to know, that you would fix the rating.

A A specification.

Q A minimum for No. 1, taking the figure "1" as indicating the highest?

A Yes.

Q You would have a minimum before you are allowed, a minimum of excellence, whether it is determined by octane number or what, I mean expert petroleum engineers should be able to tell us ---

A Well they do in fact.

Q What is a yardstick to take?

A Well they do it now. They have the S. C. E. number and they give you a maximum range in each S. C. E.

Q Quite so, and so you have a yardstick?

A Yes.

W. F. Wallace

Q That experts surely can provide?

A Yes.

Q And what is wrong in saying that if you passed the minimum, we will say octane for the purpose of this discussion, to use a word, they may have a better yardstick, but you pass a minimum of octane numbers say, octane number so and so, and you are in Grade No. 1; if you go down so much you are in Grade No. 2 and so on; there is still room for competition but having passed that minimum which will entitle you to be in Grade No. 1 you could still make a better product if you liked?

A There is no maximum.

Q Yes?

A I think it would be a good thing for the oil industry or any industry to have a minimum set on whatever products you are handling.

Q So you see nothing wrong in the theory of standardization?

A No sir, I see nothing wrong and I believe it would be a good thing to have.

Q It should surely be a safety factor?

A Yes, for the public, when the thinks he is purchasing a number one product when virtually he is purchasing a number two, you would be doing the public a service if that were established.

Q Yes, that is what I am trying to get from you, what you as an experienced man think ?

A I think you have a very important point there to standardize a product. They do it in lubricating oils and the Society of Automotive Engineers put out what they call a rating which

[illegible]

[illegible]

Q [illegible]

A Yes.

Q [illegible]

A [illegible]

Q [illegible]

A [illegible]

Q Yes?

A I [illegible] laboratory or [illegible]

Q [illegible]

A [illegible]

A [illegible]

A [illegible]

Q Yes, that [illegible] you [illegible]

A [illegible]

is called S. C. E. 10, it may be a minimum but every company may go to the maximum. It is really what is known as a number one product because it reaches that rating.

Q THE CHAIRMAN: We may have to keep these witnesses, Mr. Frawley, but I think this is not unimportant and they will just have to wait if they have to wait.

MR. FRAWLEY: Quite so. Are you finished, Mr. Chairman?

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: I want to talk to you about your Ethyl gasoline, the contracts are part of Exhibit "502" and it is the only one that Mr. Kaley of the Ethyl Corporation produced, which is a contract with the Maple Leaf Petroleum Limited for the sale of Ethyl Maple Leaf gasoline. Now you have some jobbers, one anyway, the Gas & Oil Products Limited?

A I do.

Q And you have already filed, I think, the prices at which you sell Ethyl Gasoline and "Q" Gasoline to Gas & Oil Products?

A I have not filed it, Mr. Frawley, but I have it here for filing if you wish it.

MR. DAVIDSON: I thought that was filed.

Q MR. FRAWLEY: In any event, I think it has been filed the first day, the contracts were filed I thought but perhaps not.

MR. DAVIDSON: Here is the contract itself.

Q MR. FRAWLEY: You offer a contract dated the 3rd of September, 1938, between your company and Gas & Oil Products Limited?

A Yes.

(CONTRACT PRODUCED AND MARKED AS EXHIBIT "519".)

Q MR. FRAWLEY: Are the prices in this contract, Mr. Wallace?

A Yes.

Q I am not concerned with the price. I am only concerned with quite a different point. What you covenant here is to supply them with what you call Ethyl gasoline at 6½ cents per gallon under Imperial tank wagon at Calgary or, what is it, for Imperial's corresponding brand, is that right?

A Yes.

Q And "Q" gasoline at 5½ cents under tank wagon posted by Imperial for its corresponding brand?

A That is correct.

Q And you do, in accordance with this contract Exhibit "519", supply Ethyl gasoline and "Q" gasoline to Gas & Oil Products?

A Yes.

Q And what is the name of the Ethyl gasoline which is supplied to Gas & Oil Products under this contract?

A Renown; that is the name they use for resale, that the Gas & Oil Products use for resale.

Q Now the Renown brand is the property of Imperial Oil Limited, as I understand?

A I believe so, yes.

Q And I presume that they would not permit any person to use the name "Renown" or to buy or sell gasoline under the name "Renown", would they?

A Not unless they were willing to.

Q And it simply means, to make it short, Mr. Wallace, that as

a wholly-owned subsidiary of Imperial Oil, the arrangement between, the contract which is virtually one between Imperial Oil Limited and Gas & Oil Products Limited, and the Maple Leaf Petroleum Limited has been used as the instrument for effecting the sale of Ethyl and "Q" gasoline to the Gas & Oil Products, is that a fair way to state it?

A No, I do not think that is in any way a fair way to state it. I contacted the Gas & Oil Products and after getting the permission from the Imperial Oil Company, through the contract we have endeavored to sell them. I believe at the time I sold them that they were purchasing elsewhere.

Q From the Texas Company?

A From the Texas Company and through my knowledge of Mr. Mayland and Mr. Jones and my salesmanship ability I was able to win them over to the Maple Leaf and I was given the privilege of selling them by the Imperial Oil Company and I doubt very much at that time that the Imperial Oil Company direct could have sold them or not.

Q No, but Mr. Mayland and Mr. Jones knew that every gallon they bought from you was coming out of the Imperial Oil Refinery?

A We did not discuss that phase of it. We do not make it a habit of discussing that.

Q They knew the Maple Leaf was a wholly-owned subsidiary of the Imperial Oil?

A I do not know that they have any knowledge about that.

Q There is nothing wrong in that ----

Q THE CHAIRMAN: I take it Mr. Mayland would probably have a shrewd suspicion?

Q MR. FRAWLEY: Yes, then a suspicion. Now you see, I am merely suggesting to you that because of the

fact that you were selling gasoline to Mr. Mayland's company, which he resells under Renown gasoline, which is the property of Imperial Oil Limited, the name I mean, that this is merely that you were, whether wittingly or unwittingly simply the instrument by which the Imperial Oil Company made this particular jobber's contract.

A There was some correspondence with the Ethyl Corporation and my officials in the East as to what name we would use and it was finally agreed on that they gave us the use of the name "Renown".

Q By your officials in the East you refer to Mr. Halverson, who is your vice-president?

A My vice-president.

Q Who is the president of your company?

A Mr. John McNeill.

Q Who is the vice-president in charge of marketing for the Imperial Oil?

A I think so.

Q And Mr. Halverson is the Director in charge of Western Marketing for Imperial Oil?

A Yes.

Q And also vice-president of your company?

A Yes.

Q And do you not think that this is another instance in which the Imperial Oil might just as well be carrying on its own jobbing business direct, is there any other reason for it?

A Providing Mr. Mayland would have bought from them direct.

Q Yes. Now I think that is worthwhile mentioning only because you gave me that answer, are you aware that

Mr. Mayland was, well, refused, I have not the correspondence here, it is downstairs at the moment, that Mr. Mayland applied to the Imperial Oil Limited for his Ethyl and "Q" gasolines and was refused?

A No, I have no knowledge of that.

Q If not refused, there was some neglect, there was some delay in connection with selling him. Anyway you are now selling him?

A We are now selling him.

Q Another thing is that we were talking the other day with Mr. Meltabarger with regard to the Texas Company and the Artic, did you approach the Artic Company to sell the Artic its requirements in "Q" and Ethyl gasoline?

A I cannot recall of discussing it with the Artic; the possibility that we would like to sell Ethyl and "Q". I may have done so in a talk with them but I do not recall; if I did it didn't go very far, it may have been a suggestion.

Q I will tell you how far it went, it went so far that Mr. Meltabarger had to give them a very serious reduction in the price he was giving them up to that time and he now loses money on every gallon he sells to them, with perhaps some minor exception of one product?

A It might have been my predecessor who discussed it with them; I have no knowledge of it myself, of offering any prices and if it would be it would be on file but I have actually no knowledge of any prices being offered to the Artic other than illuminating kerosene; in fact I reduced the spread on that to them.

MR. FRAWLEY: All right.

THE CHAIRMAN: Any more questions? Mr. Brownlee, do you wish to ask any questions?

MR. BROWNLEE: Well, I might ask just one or two in regard to the supplying of barrels or drums to the farmers. As I understand it, these barrels cost somewhere around $8.50 a piece?

A They do.

Q And in your accounts you set up a depreciation of about 8%?

A That is true, that is the arrangement that is made, that is the scale we work on or the schedule.

Q And if you take your experience over the past, by the way those drums are steel?

A The majority of them; they generally cost $8.00 in steel.

Q And they have a life of from ten to 12 or fourteen years?

A From ten to fifteen years, depending on the way they are used and handled.

Q And if you take your experience over the past two or three years as a guide, would it be fair to say that the probability is that the loss on those drums was less than 10%?

A The actual loss of drums going entirely out of business?

Q Yes.

A Yes, I would say so, that that is a fair average.

W. F. Wallace.

Q So that as a matter of fact, if you look at that question of supplying drums to the farmer from the standpoint of what it actually costs your company, the cost is comparatively small from year to year?

A That is correct.

Q And if that cost is spread over the total sales----

THE CHAIRMAN: I do not understand that. The cost is exactly the cost of the drums. You depreciate that out of operating costs.

Q MR. BROWNLEE: Your depreciation for last year would be how much. How much did you set aside in your company, $2200.00?

A About $2200.00.

Q So that as far as your company is concerned, the cost to you in providing drums for farmers or customers has been approximately $2200.00?

A Plus the amount of money put into purchasing new drums, which will be spread over a period of years, over a 15 year period.

Q What I am trying to get, I want to confirm my own opinion as to whether it is right or wrong - and I am asking these questions on behalf of the U. F. A., Organization - the point I am seeking to bring out is that that cost of $8.50 per drum is really written off and paid back over a period of some 10 to 15 years, the life of the drum?

A That is correct.

Q And if you set aside each year approximately 8% on the depreciation and replacement of those drums?

A Yes.

Q So that in your balance sheet for this year the charge that

you have made for supplying drums to farmers is approximately $2200.00?

A 8% depreciation on value.

Q That is the cost of supplying drums to your farmer customers this year?

A Yes.

Q And if we take that cost and spread it over the total sales of gasoline in this Province does it not come down to an infinitesimally small amount?

A Yes.

THE CHAIRMAN: The total amount of gasoline sold by this company. They are his drums. We have a very different story from other companies about drums. They say it is an enormous and a burdensome loss. However, do not let me interrupt you.

Q MR. BROWNLEE: I am simply asking this witness the cost of delivery from the standpoint of the farmer and that probably is a different story?

A The cost of the drums would be increased by the mere fact of going out and trying to find them. There is a cost on that over and above the actual 8%, Mr. Brownlee.

Q That would be the cost, for example, that might be incidental to a lot of travelling-----

A Yes, my travellers.

Q Trying to round up the drums at the end of the year. You pay those travellers a regular salary per year?

A Yes.

Q And the only extra cost that would be involved in rounding up the drums would be travelling expenses?

A And sometimes cartage and things like that.

Q Probably a small amount of cartage. In any event, so far as

W. F. Wallace.

your accounts, which you have submitted to this Commission, to consider?

A Yes, Sir.

Q The cost of drums for last year is around $2200.00?

A That is on the financial statement.

MR. DAVIDSON: Would it help any if Mr. Maclagan, who is sworn, would tell us what that is per gallon so far as the Maple Leaf is concerned?

MR. MACLAGAN: Our depreciation cost works out to about 6/100 cents per gallon.

Q MR. BROWNLEE: How much?

MR. MACLAGAN: 6/100 cents per gallon depreciation

MR. BROWNLEE: Your depreciation cost on the gallonage through drums works out at about 6/100 cents per gallon?

MR. MACLAGAN: Yes.

Q MR. BROWNLEE: These drums, I understand, hold about 45 gallons?

A Approximately.

Q And they are used, therefore, in what you class as your wholesale distribution?

A That is correct.

Q And you do give the farmer a different price, first, I presume, because of the nature of his industry and second, because of the amount he buys at certain seasons, you give him a different price than is given the ordinary driver like myself, who drives up to a retail pump. He gets the wholesale price?

A Yes, I sell the farmer at a standard price, which would not include the retail.

W. F. Wallace.

Q MR. FRAWLEY: You would sell me or anybody a 45 gallon drum of gasoline at the same price that you sell the farmer?

A If you went to the warehouse and wished to purchase a 45 gallon drum of gasoline, you would pay the market price. You would pay me the tank waggon price.

Q And as well as the wholesale price would I get a free drum?

A You might get a free drum, or it might be charged up to you. If we sell a drum of gasoline we make no discrimination.

Q MR. BROWNLEE: Am I correct, that from your records the cost of supplying drums works out to about 6/100 of a cent on the gallonage last year?

A Yes.

Q On the question of free delivery ---

THE CHAIRMAN: What rate are you allowing, between 10 and 15 years?

MR. MACLAGAN: It would be 12½ years, 8%.

Q MR. BROWNLEE: If you consider the average drum, the steel drum, it would probably last longer than 12½ years, rather than shorter?

MR. MACLAGAN: Providing it is carefully handled.

Q MR. BROWNLEE: I am speaking from the experience of your company, the average life of a steel drum would probably be in excess of 12½ years rather than not?

A Yes, it would be over.

Q But your rate of depreciation that you have set up, as a company, is probably a fair rate of depreciation, having regard to the life of the drum. Now, dealing with the question of free delivery to the farmer, I understand the cost of that free delivery is taken care of out of the

W. F. Wallace.

agent's commission?

A That is correct.

Q And, therefore, if we take the station at Leduc, for example, as one that has been commonly referred to this morning, as rather a typical station serving a rural territory, whatever distribution the agent at Leduc might make for this area that is marked out here, his cost would be borne by himself?

A It would be.

Q His commission, I take it, his margin, the agent's margin at Leduc would be the same as the agent's margin in the City of Edmonton and Calgary?

A That is correct.

Q So that if the agent at Leduc chooses to engage in the distribution and take care of the cost of distributing his products to the farmers around about Leduc, he is simply taking that cost out of the commission,which is exactly the same as any agent in Edmonton or Calgary would have who does not do any delivering whatsoever?

A Well, agents in Edmonton and Calgary do deliver.

Q Yes, there are agents in Calgary and Edmonton who do deliver but there are also agents who do not?

A By going to the warehouse a man could pick up his goods.

Q There are probably agents in Edmonton and Calgary who do not attempt to go into distribution at all. They are content to serve the customers who come to them with their cars from day to day?

A That is right.

Q And yet their commission is exactly the same as the agent who takes care of the distribution?

W. F. Wallace.

A That is correct.

Q Is it not true that in Alberta as in any farming community in the west, there are two seasons of the year in which the burden of, at least the amount sold is high, what we call the peak seasons?

A Yes.

Q And during those seasons the farmer is very busy on his land. He has a comparatively short time for putting in his crop in the spring or taking it off in the Fall?

A That is correct.

Q And having regard to the hazards of weather conditions and so on, it is vital to him that he should be on his land as much as possible?

A That is correct.

Q And the agent, therefore, who decides that it is part of his expense of carrying the business, he will get a truck and make deliveries to farmers round about and he is doing that at his own expense and he is rendering a service to the farmer?

A A very great service, I suppose.

Q Is it not true also that the system of free delivery to the farmer is one means of pooling prices to the farmers in a certain district. That is, that the farmer who lives over here, for example, in buying gasoline at Leduc, buys at practically the same price as the farmer up here on this section?

A If he is in the Leduc area, or price range, it would not make any difference whether he is 1 mile out of Leduc or 10 miles out of Leduc. The one 10 miles away would not pay any more than the man 1 mile away.

Q Leduc is designated as an agency area?

W. F. Wallace.

A Yes.

Q And it is trying to meet that problem which many other manufacturers of commodities have been trying to meet, namely, pooling prices so that the price in a certain area is the same for every person?

A Yes.

Q That is one of the things which the free delivery system does?

A Yes.

Q Now, dealing with your agent at Leduc, I suppose that like agents in other places in Alberta, he is engaged in other business?

A He is.

Q He may operate a garage?

A A garage and car agency.

Q A garage and car agency, so that his gasoline business is a side line?

A That is correct.

Q From your knowledge of the business of the U. F. A. is it not true that they have deliberately gone into other agencies for the purpose of supplementing the revenue which the agent gets at certain places?

A Yes, they have.

Q Such as insurance agencies and so forth?

A And twine and so on.

Q If by doing away with the jobbers in Leduc and cutting down retail plants, you do away with the Maple Leaf and the North Star and the Great West Distributors, it would be true that, probably true that this gallonage would have to be redistributed among the few that are left. That would

W. F. Wallace.

probably be the result unless somebody else started up?

A Correct.

Q And would the net result of that to the man himself be this, that whereas he was now carrying on a business as an agent there as a side line, that the volume, if the expectation of increase resulted, would be such that he would have to put one man almost exclusively on handling that product?

A If the remaining agents, is that your question?

Q Yes?

A If the remaining agents left----

Q Let us take as our premise the fact that in Leduc we are going to do away with the Maple Leaf Petroleums Limited, and we are going to do away with the North Star and the Great West?

A Leaving three other oil companies?

Q Yes, and that the present volume is going to be redistributed among the three that remain?

A They would have to augment their sales force.

Q They would have to augment their sales force and would there be any other expense?

A Besides augmenting their equipment.

Q It can be safely argued that by having to do that and to pay additional salaries their cost factor might be higher than it is at the present time where they are handling that commodity as a side line?

A I do not think it would be any lower. But I do not know whether it would be any higher. But it would have a tendency----

Q It can be argued, if we take this picture that is put here as an example, if we take that picture that we have at the

W. F. Wallace.

present time, of six companies operating there and overlapping, and you change it so that you have a picture of three handling the same volume, it might be that the additional cost factor would be higher than it is at the present time because at the moment it is being handled as a side line?

A Yes, it is being handled as a side line by most agents in Leduc that I know of.

Q And in any event any saving that might result from any redistribution there would probably be very low?

A It would be very low, if any.

Q Again going to the question of these deliveries to farmers, the experience of your company at least would indicate that the amount that adds by way of cost is very very low?

A That is correct.

Q On the gallon of gasoline?

A Yes.

Q MR. FRAWLEY: The pool price that Mr. Brownlee was referring to would remain the same whether a farmer came in and took delivery or delivery was made to his farm?

A I have received certain information of certain farmers coming in and talking the agent into selling at 1 cent a gallon, which is not the fact. We do not believe in that. A dealer gets his 2 cents commission and if he can through his ability sell a farmer into coming in he still gets his 2 cents. If he has to go out it costs him something. I believe certain agents in a certain restricted area have done that. It would be the same pooled price, known as the tank waggon price.

Q The reason you give the agent 2 cents on country deliveries as against only 1 cent when he takes it to a service station

W. F. Wallace.

or garage in his town, the dealer, the retail dealer, the reason you give him that extra 1 cent for his country deliveries is because he has to operate a truck and actually and physically make a more expensive delivery?

A I believe that is so.

THE CHAIRMAN: It is specifically arranged with the agent. You say it comes out of his commission. The industry is bearing a cent more in order to do that?

A I do not think we have ever made any definite suggestion to an agent that he must purchase a truck. The U. F. A. would make that. It is common knowledge he is going to acquire a truck for conducting his oil agency.

Q MR. FRAWLEY: But you do more than that. Don't you, like any other major company, help him in the financing of the purchasing of a truck?

A If it is thought right to do it. We will look over the situation and probably in time give our answer similar to any other company.

Q Yes. Now, look, I am putting it to you that you give the agent that 2 cents because he has to actually spend more money to make delivery. It costs him more than when he makes delivery to a garage around the corner from his bulk station, of course?

A Whether it is the Maple Leaf or anyone else you have to give the same service and if it costs more the 2 cents is given to him and he is able then to make his deliveries.

Q We won't quarrel about it because it is quite plain from the other companies but I put it to you like we put it to the other companies, don't you think farmers would be willing to come in and pick up their own deliveries if they were going to get something better in the price?

W. F. Wallace.

A There is certain times of the year, Mr. Frawley, when I am still convinced it does not pay the farmer to come in for his products. There are seasons of the year, as Mr. Brownlee pointed out, and that is a good point, there are certain seasons of the year when the farmer would be willing to pay the agent 1 cent a gallon more, over and above his price, instead of taking 1 cent off, if the agent would make the delivery rather than the farmer going for it. There are still many farmers who would pay the 1 cent to get delivery.

Q We will have the farmers speaking for themselves. Now, if anything goes wrong with his tractor in the Fall he still has to go into town as well as he can and get the missing part?

A That is very often sent out to him. A machine man might run it out to him for nothing.

Q For nothing?

MR. BROWNLEE: Sure.

A The farmer does not always come into town.

Q MR. FRAWLEY: You say the implement companies make free delivery of repair parts?

A I did not say the machinery companies, but an implement agent might receive a call from John Jones, who says he has burned out a part and would he send it out, if possible, probably by a neighbour. The machine man will say "I will run it right out to you", to help him out in his trouble. He will run it right out, and he won't make a charge for it.

Q There is a difference between the petroleum products business and the farming implement business. If I am wrong I want to be informed. I am told machine companies do not supply free delivery of parts whereas oil companies do

W. F. AWallace.

A They may not supply free delivery of parts but their agent might make such deliveries as he sees fit. He may give such service as he may see fit. That is included in the commission that is allowed.

Q There may be all sorts of small peculiar situations existing. But in the petroleum industry it is a definite and fixed policy that you give him that extra cent because he has to bear such costs himself.

Q MR. BROWNLEE: Is not the cent added to the price at that point so that the farmer really pays it?

A It is the tank waggon price and we do not add anything.

MR. FRAWLEY: The farmer pays the posted tank waggon price?

A He pays the posted tank waggon price. That includes his commission arrangement.

Q What Mr. Brownlee means is the man at the pump, the retailer operating a service station or a garage, does not pay very often the posted tank waggon price?

A He gets his allowance of 1 cent a gallon.

Q If he is an undivided dealer he gets 1 cent allowance?

A Yes.

Q So the price he pays is the posted tank waggon less 1 cent?

A Correct.

Q And the farmer and all other consumers pay the posted tank waggon?

A Yes.

Q And in that way it may be said that the farmer is paying 1 cent more because it is delivered to him?

MR. BROWNLEE: And that the cost does not fall back on the industry?

W. F. Wallace.

A Yes.

Q MR. FRAWLEY: Well, if farmers came in and got their gasoline supplies at their own expense it would be fair to say there should be something off the price to them, off the posted tank waggon price to them, surely. As a matter of fact, it is going on every day, every place in Alberta, as you say, whether your eyes are opened to it or shut, the agents are doing that, aren't they?

A I believe they are, Mr. Frawley, yes.

Q And why not extend it. I just offer that for your consideration. Why not make it a policy?

THE CHAIRMAN: I think, Mr. Brownlee, if you are undertaking to answer, and I hope you will, that you should familiarize yourself with the evidence of the major companies, the officers of the major companies who spoke upon this subject and not just answer what you hear to-day. Because Mr. Wallace has not, of course, had to concern himself with this angle to the extent that such men as Mr. Halverson and Mr. Miller and these others have. I mean if you will make answer, and I know you want to make full answer, so it might be worth your while to look at what they have said about this subject. Mr. Frawley can no doubt help you find out where it is.

MR. BROWNLEE: Still the fact remains, so far as this company is concerned, it makes a definite charge for drums and it does not depend upon the evidence of other companies.

THE CHAIRMAN: It does not make any more charge to the farmer than anybody else. It charges in the books--

W. F. Wallace.

MR. BROWNLEE: So far as the cost of the drums----

THE CHAIRMAN: For the purpose of making a record. But the trouble is that these drums are lost and destroyed and used as stoves and everything else and it is an enormous expense in, not only that the life of the drum is 12½ years but the new drums they have to buy to keep the thing going. And everybody's gasoline is put in it. But if you will make answer----

MR. BROWNLEE: Not that I want to take the time just now, but the fact remains that I asked this witness from the experience of this company and the fact remains that it ran, on the business they did, to less than 10%. That is not large. It may be that they have a more careful check than the others. But I will be glad to look into what the others say.

THE CHAIRMAN: If you limit your inquiry and your answer to this company you won't help us very much. Well, it would help us to the extent that this company is concerned. But what I hoped was that your clients being interested in farming generally, would talk on the subject in a broad way and say "How does this touch this industry. Is it proper that it should continue or is it reprehensible?"

MR. BROWNLEE: I appreciate the suggestion and we will, perhaps, consider that between now and tomorrow. In the meantime I was anxious to know whatthe what the experience of this company was.

THE CHAIRMAN: Quite so.

MR. DAVIDSON: Your Lordship and Mr. Commissioner, we had plenty of warning that we would be asked one other question and our answers are written down. That is the

W. F. Wallace.

answers to Dr. Frey's questions in regard to marketing.

MR. FRAWLEY: I intended to take that up the first thing in the morning with Mr. Wallace. But you would like to go?

MR. DAVIDSON: Yes.

MR. FRAWLEY: I do not want to keep you unduly. This purports to be all of the question.

THE CHAIRMAN: Are you all through with the witness Wallace?

MR. FRAWLEY: Except for the questions which were suggested by Dr. Frey, and I intended to discuss those with him. I would not like to say that something would not come out of that discussion that Mr. Davidson might like to hear.

THE CHAIRMAN: I do not think you can take this unless Mr. Davidson might be interested in hearing what you have to ask. Supposing Mr. Cottle wants something more, Mr. Davidson. Supposing he says it is incomplete or what is your explanation of this or that. You will have to make up your mind as to whether you want to be here to hear it.

MR. DAVIDSON: I had better decide to be here.

THE CHAIRMAN: I do not think we can dispose of it so summarily.

(At this stage the Hearing was adjourned until 9:00 A. M. 25th July, 1939.)

::::::::::::::

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 25th, 1939

VOLUME 107

I N D E X

Page

VOLUME 107 - July 25th, 1939

WITNESS:

E X H I B I T S

WILLIAM FRANCIS WALLACE, having been recalled, examined by Mr. Frawley, said:

Q Mr. Wallace, will you prepare and file a statement showing information with respect to the number of office buildings and the number of bulk stations and generally conforming to similar statements filed by the Imperial Oil in Exhibit "314"?

A I would be glad to.

Q You are really prepared to file that now, are you not?

A Yes.

Q You have the information all prepared?

A I have the information prepared.

Q But I would like it separate and have it filed as a separate Exhibit, and that can be done at any time.

THE CHAIRMAN: You will undertake that?

MR. DAVIDSON: Yes.

Q MR. FRAWLEY: Now does your company assist an agent, commission agent, either the U. F. A. Association or the individual operating in the station in the purchase of trucks to carry on the business of your company?

A We do.

Q And what is the nature of the assistance you give?

A Well, we assure ourselves in the first place that he requires a truck for the carrying on of our business and presuming that he does, we look into his financial standing and loan him up to 50 or 60% of the purchase price of the truck and take a lien on the truck to protect ourselves, as security.

Q What rate of interest do you charge?

A None.

Q And over what period do you spread the repayment?

A 18 months or 24 months.

Q You feel, you do that because other companies do it or because you think that is a legitimate kind of assistance to render?

A We do it because we find it is necessary for the conduct of our business to put our agent in the same position as other agents.

Q Yes, now ----

THE CHAIRMAN: Of course what use is the truck put to, that is necessary for your business?

A The delivery of gasoline and probably in some cases hauling the gasoline and lubricating oil from the Calgary refinery to the destination in the town. It may be a small truck or it may be a large transport truck, whatever the case may be; they augment their living or earning powers by trucking the products used at the station, trucking the products from Calgary in many cases.

Q MR. FRAWLEY: And you feel it is as much your business, rather than his, I mean as much primarily his business to deliver, to make these deliveries to the farmer customer and to the retailer, there are two kinds of deliveries are there not?

A Yes, there are two kinds of deliveries, the one to the garage man, the local dealer and the other to the farmer.

Q Let us take each of them separately, the deliveries he makes to the local garage man either in his own village

or in the next village, he gets a commission of 1 cent?

A 1 cent a gallon commission.

Q And he bears whatever expense is involved in that operation in that 1 cent?

A He does.

Q And then the deliveries to the farmers, which might be how far from his supply point?

A Probably out to ten miles.

Q For that he gets 2 cents a gallon commission?

A He does.

Q And he stands the upkeep of the truck and the payment of the man's wages who operates it and whatever it is?

A Yes.

Q And you say you regard that sufficiently your business, the maintenance of that truck, that you finance the dealer---

A Not the maintenance of the truck, the purchase of the truck. We help him originally purchase the truck. The maintenance comes out of his business. We help him to purchase the truck if it is necessary to help him in carrying on his business.

Q THE CHAIRMAN: Does the statement show how much is invested by this Company in trucks?

MR. DAVIDSON: My recollection is that it is in that breakdown, one of the breakdowns.

MR. FRAWLEY: Probably if Mr. Maclagan, it would only take a second, you might make reference to the Exhibit number and page.

MR. MACLAGAN: We have done very little of financing of trucks ourselves. The U. F. A. have done most of that. It is to their agents. We have financed

the odd agent and they are all mixed in with the other accounts and it is hard to pick them out.

MR. FRAWLEY: Let me ask you this, Mr. Cottle could by looking at your Exhibit "512" Page 8, he could advise the Commission as to how much money you people have tied up in outstanding loans payable by your agents?

MR. MACLAGAN: I could pick them out and give you a statement.

MR. FRAWLEY: File a short supplementary statement of it?

MR. MACLAGAN: Yes.

MR. FRAWLEY: Will you do that, Mr. Maclagan.

MR. MACLAGAN: Yes.

Q (MR. FRAWLEY TO MR. WALLACE: Now, your company also sells gasoline to consumers at wholesale prices?

A You mean the commercial consumer?

Q The commercial consumer account.

A We do.

Q Do you, shall I say, canvas for that business?

A We have no salesmen.

Q You have no salesmen at all?

A No.

Q And your retail, no, that is not retail, that is wholesale, in this arrangement between yourself and the U. F. A., is there as much commercial consumer account as there is in another company of about your size?

A We have a few commercial accounts. I have a list of them here.

Q Yes, well perhaps you might file it if you have a list, so that the Commission will have an idea of what commercial

accounts you have, oh, they are very short?

A Very, very short.

Q Perhaps they could just be read into the record without making it an Exhibit. This is a list of the commercial consumer accounts of the Maple Leaf Petroleums Limited,

Starrs Ambulance	-	Calgary
Dench Limited	-	Calgary
Halls Feed & Transfer	-	Calgary
Armitage-McBain Ltd.	-	Edmonton
Crown Coal Co.	-	Edmonton
Horrick Bros. Dairy Farm	-	Edmonton
Radiant Coal & Wood Ltd.	-	Edmonton
Motor Truck Express Truckers	-	Edmonton
Old Timers Truck Service	-	Edmonton

Now, those people buy from you at what is called the 100% tank wagon?

A 100% dealer's allowance.

Q Now, that is the thing about that kind of business which has always troubled me a little bit, Mr. Wallace, why should these people if you are selling to them at wholesale prices, why should you not sell at least at posted tank wagon, why sell them at 1 cent off posted tank wagon?

A Well, we had to follow competition; this thing has been going on for a long time and the method of giving the large consumer, the commercial consumer, the benefit of the 1 cent a gallon discount and naturally we have had to follow in the line of competition, where it is necessary.

Q You speak about the large consumer account, but the small, the very small commercial consumer account gets the same discount?

W. F. Wallace

A In most cases he gets the same.

Q 1 cent off posted tank wagon?

A Yes.

Q That is you put him in the same class as you put your retailer dealer in the business, who is in the business to make a living?

A Yes, that is correct.

Q Do you see anything wrong about that?

A To be frank, no, I cannot say that I do. It has been the practice for such a long time that it has possibly just been carried on now and become a regular practice.

Q Well something else now, do you finance the purchase of this equipment because these consumer accounts, these commercial consumer accounts, must have equipment, a tank and a pump?

A I believe we have a few places where we have sold these consumers, the commercial consumers, equipment on a loan agreement and a pump loan agreement.

Q When you say "loan"?

A A pump, a sales agreement rather.

Q Are you very zealous in making collection of those accounts or are you very careless?

A No, we try and we do make quite a success of collecting these monthly payments.

Q And do you sell at reasonable prices or at give-away prices?

A Well, no, we do not give them away. We sell them at a reasonable price. We sell them at the price they should be sold at.

Q Do you think that the commercial consumer account has a

proper place in the marketing of petroleum products in this province?

A I believe the large consumer should have some consideration; he purchases a large quantity of products.

Q If I were operating two passenger cars, there is no question about what I would have to do, I would have to go to the service station and pay service station prices, like hundreds of ordinary drivers of cars are doing; many people of the better class have two or three cars, have they not?

A I presume so.

Q But if you are now, if you are commercial at all, if you are a wholesale grocer with two trucks, then he can go to your company and buy a pump and tank on time and get gasoline at 1 cent off posted tank prices?

A Yes.

Q Now, I just simply put it to you, why should not the wholesal grocer with two trucks go to the service station like anybody else with two units?

A Well, Mr. Frawley, I did not originate the idea of putting these people on the consumer, A.P.A. basis, and it has been a practice which has been carried on and I do not think I have any comment I would like to make, any comments on the situation at all.

Q You followed the thing but let me put this to you, you do see some unfairness to the service station operator who perhaps had a wholesale grocer's account last week and then he went on a commercial consumer basis with you and continued to call at the service station for his water and his air and his battery service and so on?

W. F. Wallace

A I do not know that we have any to speak of. I think Dench have their own equipment and do not bother anybody to give them any service.

Q Yes. There are some pretty small ones though, the Crown Coal Company in Edmonton would need some?

A That is rather a large account. They have their own garage there and I presume they still have some place where they go for their own repair work.

Q Starrs ambulance in Calgary, they would not have any air compressors?

A I think it is right next door to Dench who has an air compressor and he might use his, I do not know, I never checked them up really.

Q Well now the next question has to do with the matter of steel barrels and you discussed that pretty thoroughly yesterday and I suppose you have nothing further to say about that?

A No.

Q What is your company's estimate per gallon of tank truck haulage?

A 10% under the regular tank car rate.

Q In other words you pay, you ascertain what the freight, what the tank car freight rate is and you pay 10% under that?

A To any given point.

Q To any point where it is hauled?

A Yes.

Q THE CHAIRMAN: I do not understand that, you pay that to whom?

W. F. Wallace

A To the truckers, the transport truckers.

Q MR. FRAWLEY: To the trucker. Now you have no salaried truckers, you have, have you, do you own any truck equipment?

A One truck.

Q Which is operated by your own employee on a salary basis?

A On the same basis, that is we charge it, we work our books on the same basis, we charge that at 10% less the freight rate.

Q Then you employ custom trucking and you pay at 10% under the freight rate?

A Yes.

Q By the way, have you studied the new charges agreed to be made or about to be made?

A I have, yes.

Q Between the Imperial and the railways?

A I have.

Q How will that compare with the present rates?

A In the points adjacent to Calgary much more, like Crossfield and up as far as 100 miles or 150 miles, it is much more than 10% under.

Q You mean it is more than 10% ----

A Under the regular prices.

Q It is cheaper?

A It is cheaper.

Q It is cheaper than 10%?

A It is cheaper than these tank car rates.

Q So it will certainly affect that portion of the trucking business and even beyond that?

A It goes up to 270 miles from Calgary and then it reverts back to the present day rates.

Q Then take a point 270 miles from Calgary, you could ship cheaper in that tank car quantity of course by, under these new agreed charges, than by your truckers?

A I am afraid we will have to make some rearrangment of our trucking business because we have points, many points that are not on the railway and therefore, that excludes us delivering in tank car at tank car rates.

Q Yes, you also find it profitable to deliver in smaller lots than tank cars?

A Well inasmuch as we have smaller storage places and it would be more profitable to purchase smaller quantities rather than carry over a large quantity during an off season such as just now when there is not much moving.

Q By the way, speaking of these jobber prices which you get, they are all tank car quotations, are they not?

A The 6 cents under the tank car and 5 cents and 7 cents.

Q Under the tank wagon?

A Under the tank wagon but this new rate, I do not know that it has any particular rate under.

Q No, it is an F.O.B. refinery price?

A F.O.B. refinery price.

Q But it is intended to be a tank car quantity purchase?

A No, we can purchase in truck lots.

Q That is just what I wanted to know, it does not matter to the refinery whether you purchased in a small two or three hundred gallon truck, let us say, or in a six or seven thousand gallon tank car lot?

A Well, they assume we are going to purchase in probably 1200 or 1500 gallon lots in our transport trucks.

Q But knowing that they have all of your business, up to a good many hundreds of thousands of gallons each year, I take it, it does not matter to them how much you take each time you go there?

A Not in particular. They have never made any complaint.

Q Now does your company engage in the practice of renting premises for outlets, now I do not know whether that, in your particular case, with the U. F. A. connection, whether that affects you the same but I would like to know what your position is with respect to third-party leases or premises, whether wholesale or retail or both, combination?

A Well, the company has 15 third-party leases, as shown on the answer to question 1.

Q Now as shown on the statement you are about to file?

A Yes, that we are about to file. It shows 15 here, Mr. Frawley.

Q Yes.

A The rents paid and the rents received and also shown on the same Schedule ---

Q Yes?

A The number of company leases and the rents paid are also shown on the said statement. The advantage to the company of Third-party and Cross Leases is that frequently the lessee starts out with very little capital and perhaps his equipment is not in good condition. He needs assistance. We have, in the past, been prepared to lend assistance to the right party, but in order that

W. F. Wallace

we would not be assisting a man to establish himself in business and build up gallonage in order that he might turn this over to some other supplier, we, more or less, control the situation by a Third-party or Cross Lease. At the same time we put ourselves in a position to put in another operator if the station is not being properly operated. The advantage to the Dealer is that he gets the assistance he requires. The advantage to the Company is not entirely to keep out competition but rather to give the Company the protection it requires and is entitled to and to reasonably assure ourselves that they will retain the gallonage that it helps to build up. The Company has discontinued this practice except in very exceptional cases.

Q When you say " the Company has discontinued this practice", what do you mean?

A Of entering into Third-party leases or leasing at all except in very exceptional cases.

Q Now, what about Cross leases, where you approach a dealer and he owns the premises and you rent the premises and then rent it back to him?

THE CHAIRMAN: What is the Third-party lease first?

MR. FRAWLEY: That is where I may own and Mr. Wallace approaches me and rents it and then rents it to a dealer and I am not in the oil business at all.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: Have you any of what I call "Cross leases"?

W. F. Wallace

A I think they are all in that one statement, Mr. Frawley, the Third-party or Cross leases.

Q Now would you file, I am showing you a statement, that I understand you desire to file?

A It is a breakdown of the expenses in connection with the leases, the service stations.

Q MR. FRAWLEY: Mr. Wallace files a document entitled "Maple Leaf Petroleum Limited, Calgary, Alberta Leases at Service Stations"

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "520".)

Q MR. FRAWLEY: Mr. Wallace, to what extent does the Company finance dealers who do not rent company-owned stations?

A That is the individual man who owns his own garage and requires assistance from us?

Q For renovation or painting or anything of that sort?

A Well, if we have a request from a party of that nature why we take it into consideration, the necessity first of renovating his premises; then his financial statement is gone over and if it is deemed advisable to assist him we will assist him, providing we can take the proper securities on the loaning of the money, which we made, or loaned to him; we take a lease on the premises or such other security as we deem necessary.

Q It is just another way of making certain of some gallonage and more gallonage and better marketing facilities as far as you are concerned?

A Well, it may be better marketing facilities, reasonable, well we think it probably will increase the gallonage by

the renovating of his service station and giving him a better place for the motorist to drive in; that would be the original idea of renovating his place.

Q If you didn't do it I suppose you know enough about the conditions in the oil industry to know that one of the other companies would do it?

A They might unless our connection was established.

Q MR. DAVIDSON: Do you charge interest on any of that?

A 5%.

Q How much have you outstanding under that heading at the present time, or if you can simply refer to some place where it is already in as an Exhibit?

MR. MACLAGAN: I believe we have only one so far as I remember and that is Leduc.

MR. FRAWLEY: You might just make a brief statement on that advice, Mr. Maclagan.

MR. MACLAGAN: The balance owing, here it is, on statement 11, C. E. Raynar, Leduc, $155.00.

MR. DAVIDSON: Then the extent of your loans for that purpose at the present time is $155.00 to Mr. Raynar at Leduc, is that right?

A That is right.

Q MR. FRAWLEY: Has your Company any plan for annuities or insurance or sick benefits for your employees?

A Yes.

Q And what have you to say about that?

A It is a similar one to the Imperial Oil Company.

Q Do you participate in the Imperial Oil plan or have you a separate one of your own?

A No, we participate in the Imperial Oil plan.

Q Now do you have any service station supervisors?

A No, sir.

Q Now then, what would be the idea of your company in the matter of absorbing all rents and taxes of the service station operator, that is to say making the company, your company, nothing but a landlord?

A The Company would be very much opposed to fixing the dealer's rates or anything. We endeavor to get as much back from the rent as it is possible to do, from the leases we rent, we endeavor to get as much out of that service station as it is possible for us to do so; sometimes we do get all of the rent but we endeavor to get the biggest portion of it.

Q Why do you not set out to get the exact amount, if you were renting me a house ----

A We do.

Q You would see that I paid you at least your taxes and insurance charges?

A We do endeavor to get the amount in the first place.

Q You do endeavor now, to get back by way of rent first of all, whatever rent you have to pay out, if you are in turn renting it?

A Yes, we endeavor to get that back again.

Q You endeavor to get it back?

A And in many cases we do.

Q Do you seriously try to get it all back?

W. F. Wallace

A We seriously try, Mr. Frawley, to get it all back if it is humanly possible at all.

Q And if you do not you charge it up as a marketing expense?

A We would have to charge it up as a marketing expense if we didn't get it all back.

Q From the point of view, you regard that as a legitimate item of marketing expense, I mean from your point of view, the difference between the amount you have to pay and the amount you receive, as rent?

A If it is necessary to lose the rent, a portion of the rent, we would have to do it but we endeavor to keep our rent in line with the rent that we think the man might be able to pay us. We do not endeavor to pay a higher rent out to one party and just a low rent to the party that may lease that, thereby taking a loss on that.

Q THE CHAIRMAN: What is the fact now, have you succeeded?

A Up to the present day we are in a much better position than we were 6 months ago, Mr. Chairman; we turned over quite a few of the leases, turned them back where they were not profitable to us and made new arrangements with new tenants so that we substantially reduced that loss which we had last year, for the year 1939; some short leases were carried on that were made before I assumed the Branch and I had to continue under the leases that we had drawn up.

MR. FRAWLEY: It is shown, Mr. Chairman,

on Exhibit "520" just filed that the Company's loss was $4,051.32 under that heading, that is the figure at the bottom of the page; in other words, or 1.18 cents per gallon on your 1938 gallonage.

MR. MACLAGAN: No, on the sales at the stations.

THE CHAIRMAN: On the sales at the stations?

MR. MACLAGAN: Yes.

Q MR. FRAWLEY: In other words, you lost on the sales going through these stations 1.18 cents per gallon by virtue of not getting in revenue as much as you paid out in rents?

MR. WALLACE: That is correct.

(Go to Page 12,007)

W. F. Wallace.

Q MR. COMMISSIONER LIPSETT: In the one case I notice, in the case of the Log Cabin station, you make a loss to the extent of 5.90 cents, Mr. Wallace?

A That is correct, Mr. Commissioner. I may say that lease was cancelled early in the year 1938 and we have not got that any more.

Q How long was that going on, Mr. Wallace?

A That was going on for over two years previous to that time but I discontinued as soon as the lease ran out. I may say that station is not even operating now.

Q What about the Central Motors at Drumheller, a loss of 4.10 cents?

A That arrangement has also been altered and I may say that we will greatly benefit. I may say that over 50% of the rent will come back to us now. That deal was made and had to stand until such time as the termination of the contract and as soon as it terminated I turned it around. The termination of the lease I mean.

Q THE CHAIRMAN: You are getting how much more of the rent now?

A We are getting 65% of the rent.

Q MR. COMMISSIONER LIPSETT: Does that mean you are going to take a loss in the future of 2 cents a gallon?

A We have it estimated it will be probably less than that, depending on the gallonage that goes through that station.

Q You see, you are paying $1200.00 a year in that station and you are now going to get how much?

A $65.00 a month in rent from it. We have made a new arrangement effective at the present time for $65.00 a month.

Q MR. FRAWLEY: There is only Harvey's garage at Barrhead, where you are getting your rent. You pay

$262.50 and you get $262.50. There is not one other point. Look at the place in Calgary, (a) Imperial Oil station No. 1. Leased from the Imperial Oil, and leased to A. E. Kerslake. You pay out in rent $1,968.53 and you receive in rent $659.00, a loss there of $1,309.43. The reason I am calling your attention to this is, my impression from the other companies was simply this, they were quite impatient with me in suggesting that it was right and proper that they should try and get an economic rent. My reaction was that they thought that I had quite a wrong opinion in looking at it from that point of view, that it is not a question of rent at all. It is a marketing expense, get the gallonage out and if you cannot get the rent you pay for the service stations carry on just the same. That is a marketing expense. What do you think about that?

A Well, you picked out that Kerslake service station. We have a much better arrangement at the present day. Every case where I looked over the situation and found that it was not profitable to us I endeavoured to make better arrangements as soon as the then existing lease terminated. In certain cases I could not make better arrangements and I dropped it altogether rather than carry on. I am endeavouring to straighten up this lease situation as far as the Maple Leaf Petroleums is concerned to a better basis.

Q MR. COMMISSIONER LIPSETT: Take that particular case, that service station No. 1. Your lessors there are the Imperial Oil?

A Yes.

Q And they charge you a rental of $1,968.00 for premises

W. F. Wallace.

that presumably are only worth $659.00?

A We only got in return $659.00.

Q What is the explanation, Mr. Wallace, of the Imperial Oil charging you that price for the premises under those circumstances?

A That is leased premises. The Imperial Oil Company do not own that premises, they lease it from a third party, and until the lease terminates we release it from them owing to the fact they have a station across the road from it, on the other corner. We requested that we be given the privilege of operating that station for the convenience of our customers in the City of Calgary, as we do also in the City of Edmonton. We asked for that station and we were given it. We were charged all of the rent they were paying for it. But now we will get almost all the rent we are paying. We believe this year we will get 75% of the rent we pay back from the new tenant we have in there. It is necessary to have stations for the accommodation of the out of town customers.

Q MR. FRAWLEY: What is the attitude of your company towards the fixing of the dealer margin. When I say "fixing" it, I presume a recommendation from this Commission that the dealer margin should be investigated and that a conclusion should be made and recommended with respect to the amount of it. What do you say about that?

A The company will be opposed to fixing a dealer margin at any time. We would hesitate to interfere with the dealer's own business. We are not interested in fixing or attempting to fix any margin of profit for anybody.

W. F. Wallace.

Q Mr. Wallace, I wonder if you are not interested. If you had a dealer and he decided to-morrow morning he was going to go out and get some business and cut his margin, which is pretty well established, I think it is pretty well established here in Calgary, at 4½ cents, is it not?

A 4½ cents.

Q For the undivided dealer. If one of your operators decided he was going to take a chance to-morrow on 2 cents and he started selling gasoline on 2 cents over the tank waggon, 2 cents over what he paid you for it, would you just ignore it altogether and not give it a thought?

A I would not say so, Mr. Frawley. I would endeavour, if possible, to point out to him that he could not possibly operate on 2 cents a gallon. It would not be very long before that dealer would not be in business. He would naturally go out of business through lack of making a profit. He could not continue to pay for his goods and pay for his help and work on a 2 cent margin. I do not think it is humanly possible for anyone to do it.

Q He might think he could do it if he built up his volume. Would you let him run along long enough to do that?

A I could not stop him if he decided to sell his goods 1 cent below the tank waggon. I could not stop him. I might try to reason with him not to do this but I would not endeavour to stop him.

Q Do you think it would be good business and proper on your part if he was doing that kind of business to put him on a cash basis?

A I would protect the company's interests insofar as getting paid for our products.

Q You might consider it would be necessary to put him on a

cash basis?

A If the credit department felt that way I would not interfere with them.

Q You would feel the risk would be increasing if a dealer went on a 2 cent margin rather than 4½?

A I would rather think anybody's business would be in the same category.

Q Have you made enough study of the margin in Calgary to know that 4½ cents is just right or too little or too large?

A No, I have not. We are not very much in the service station end of it, The dealer end of it is a very, very small proportion of our business. As far as the cities, it is more for the convenience of our customers that we run service stations in the cities. I have not made any study of the situation to give an opinion about it.

Q You know the corresponding dealer margin in Edmonton is 3½ cents?

A 3½ cents or 4. I think some people are getting 4 cents in there. But we only have two service stations in Edmonton, one is on the outskirts.

Q You have not got a great deal of experience with dealer margins?

A No, I have not, Mr. Frawley.

Q Do you operate any credit card service?

A We have a very limited number of what we call credit books that we do give out to certain people if they request them. I have one here with me. It can be shown. It is merely for the conveneince of anyone who desires this service. He carries that with him and the service station operator keeps this and turns it in for cash.

W. F. Wallace.

Q You call it credit invoices?

A Credit invoices.

Q This, by the way, is your own, of course?

A Well, you can use it as an Exhibit, if you wish.

Q I will offer it as an Exhibit. It is a little bit different from the usual run.

(CREDIT INVOICE BOOK FROM THE MAPLE LEAF PETROLEUMS LIMITED IS NOW MARKED EXHIBIT "521".)

A We can supply more if it is necessary.

Q I think that is all. I think now I have put that in I will have to put in what the other companies use, or it would not mean very much to the Commission.

A You have the annuity plans of the Imperial Oil that we were talking about.

Q No. I do not think Mr. Nolan filed those. I will ask Mr. Nolan to get those. Now, Mr. Wallace, I suppose from what you say that it is very difficult, if not impossible, for you to tell the Commission what that costs you per gallon, that credit card?

A Nothing. It does not cost us anything. We have only got about, I think it is 100 issued, and the cost is absolutely nil to us.

Q MR. DAVIDSON: The cost of printing them?

A Printing cost. But the other cost is nil.

Q MR. FRAWLEY: Does your company feel that the distribution of gasoline through service stations is sufficiently adequate to justify no further licences being issued by the Province?

A Well, I do not think that I can answer that correctly. I have not made any great study of it.

W. F. Wallace.
N. F. Priestley.

Q You are not in the service station business?

A We are not in the service station business, no.

Q Thank you very much, Mr. Wallace, that is all.

THE CHAIRMAN: Any questions?

MR. NOLAN: No, thanks.

MR. FRAWLEY: All right, Mr. Wallace. That is all, thank you.

MR. BROWNLEE: I will call Mr. Norman Priestley.

.....

NORMAN FLAXMAN PRIESTLEY, having been duly sworn, examined by Mr. Brownlee, testified as follows:

Q Mr. Priestley, you are appearing for the U. F. A. Central Co-Operative Association Limited?

A I am.

Q What is your position with that company, or that association?

A Chairman of the Board.

Q Chairman of the Board of-----

A The U. F. A. Central Co-Operative Association Limited.

Q The Board of Directors you mean?

A Yes.

THE CHAIRMAN: Just a minute till I get that name correctly. Chairman of the Board of-----

A Of the U. F. A. Central Co-Operative Association Limited.

Q MR. BROWNLEE: You say you are Chairman of the Board of Directors. Has that position any relationship to the management of that Association?

A Yes, under our by-laws the Chairman acts as manager.

Q So that you are in effect the General Manager of the Association?

A Yes.

N. F. Priestley.

Q How long have you held that office?

A Since the Association was incorporated in 1932.

Q Now, prior to 1932 had you anything to do with the Co-Operative activities of the United Farmers of Alberta?

A Yes, I was elected Chairman of the Co-Operative Committee of the Association of the United Farmers of Alberta in January, 1931.

Q Now, in order that the Commission may be fully informed of the origin of this Association, am I correct in this, the United Farmers of Alberta is the parent organization?

A Yes.

Q And that prior to 1932 there had been a Co-Operative Committee of that Association dealing with the question of the co-operative marketing of farm supplies?

A The co-operative buying of farm supplies, yes.

Q The co-operative buying of farm supplies, and that the activities----you were on that committee?

A Yes.

Q And the activities of that committee finally led to the incorporation of the U. F. A. Central Co-Operative Association Limited, under the Co-Operative Associations Act, in 1932?

A That is correct.

Q You then assumed the position of Chairman?

A Yes.

Q Just one other question. Having been connected first with the Co-Operative Committee and secondly as manager of this Association since 1931, I assume it is correct that you have been in close touch with the activities of that Association in the marketing of petroleum products?

N. F. Priestley.

A Correct.

Q You are familiar with the contract which was produced here yesterday?

A Yes.

Q Being a contract or a series of contracts between the Association and the Imperial Oil Limited?

A I am. I was a signatory.

Q Just one other thing there, what is your position in connection with the United Farmers of Alberta?

A Vice-President.

Q You are Vice-President of the parent organization?

A Yes.

MR. COMMISSIONER LIPSETT: Is that the full name of the organization, Mr. Brownlee?

MR. BROWNLEE: The parent organization is "The United Farmers of Alberta." Its subsidiary organization, marketing organization, is the U. F. A. Central Co-Operative Association Limited.

THE CHAIRMAN: United Farmers of Alberta. Is that registered as a legal entity?

MR. BROWNLEE: Yes, that is incorporated by a special Act of the Legislature, is it not?

A Yes.

MR. BROWNLEE: Incorporated - I can give you the year, my Lord, but I know it was incorporated some considerable time ago by a special Act of the Provincial Legislature.

THE CHAIRMAN: Yes.

Q MR. BROWNLEE: Now, you have a statement, I believe, Mr. Priestley, that you have prepared?

N. F. Priestley.

A Yes.

Q For the Commission?

A Yes.

Q I presume that will be filed.

(SUBMISSION ON BEHALF OF THE U. F. A. CENTRAL CO-OPERATIVE ASSOCIATION LIMITED IS NOW MARKED AS EXHIBIT "522".)

MR. BROWNLEE: I presume he will just read this, and any point you wish to question him on you will do so?

MR. FRAWLEY: Yes.

Q MR. BROWNLEE: Will you just read this then, Mr. Priestley, and if anyone wishes to have any further explanation I presume they will ask for it.

A My Lord, Mr. Commissioner:

I am appearing on behalf of the U. F. A. Central Co-operative Association Limited, one of the larger distributors of fuel oil among the farmers of Alberta. I am appearing on the suggestion of counsel for the Commission and on behalf of the Association wish to say that we will be glad to furnish the Commission with any information we have, based on such experience as we have had extending now over a period of approximately eight years.

I am not sure how helpful we can be however. Our experience so far has been confined entirely to the sale and distribution of fuel oils, principally in the rural parts of the Province. By far the greater part of our distribution is among farmers. We have no retail outlets in the cities. We have had no experience whatever in the production of crude or in refining or manufacturing. We cannot therefore speak with any authority on the problems

N. F. Priestley.

of production, transportation of crude or of refining or manufacturing, while any experience we have had over the past eight years in the distribution end of the petroleum business has made us acutely aware of the possibilities of great changes and the risks involved for persons or companies with small capital resources.

Q THE CHAIRMAN: Right there, if we might interrupt you as we go along and as things occur to counsel or the Commission, instead of trying to remember and come back to it?

A Yes, I would be glad if you would do that.

Q You are concerned primarily, of course, as your office would indicate, with the needs of the farmer in getting him his product at the least possible price?

A We are.

Q It is to that end, I take it, that this last mentioned organization, of which you are Chairman, was set up?

A That is so.

Q Now, have you not had occasion to concern yourselves at all with whether or not the product was being put into your hands for distribution to your people at the proper price?

A We have concerned ourselves on that.

Q For example, you say here - and that is why I interrupt you at this moment - that you have had no experience whatever in the production of crude or in refining or manufacturing and you cannot speak therefore with any authority on the problems of production, transportation of crude or of refining or manufacturing. I was just curious because, if you had made enquiry, perhaps the

N. F. Priestley.

results of that enquiry would be of interest to us. You are really very much concerned with it and all of those things in order to get your people the product at the cheapest price aren't you?

A Quite.

Q Have you ever had occasion to find out if before it reaches your hands there are costs that should not be included in it, in production or in refining or in marketing. Or in freight rates or in anything else that would help to add to the price to your people?

A We have, my Lord, and we feel that there are many costs that are exorbitant.

Q Can you specify them now. It is just such things we want to hear about .

A In our first enquiries in respect to the new contract in 1935 we came in contact with many refiners and marketers of petroleum products and had prices laid before us, basis refinery, and traced those prices, with subsequent additions by freight rates in the United States, by tariffs, excise tax, sales tax and by freights in Canada, and saw very clearly that the problem of price in Alberta is very much involved in those matters.

Q Yes?

A However, it is an involved and difficult subject.

Q We well know that by now.

A I was going to remark that this Commission has made valiant efforts to get down underneath it all and, perhaps, even still finds it difficult.

Q Yes.

A Not being a technician and not having the resources at our command I personally and we as an association have not

N. F. Priestley.

pursued the matter to the extent it requires being pursued. We hope something will come out of this Commission that will enlighten us on these matters.

Q MR. BROWNLEE: The meaning of your brief, I take it, is this, that you have not attempted to make a technical study of the actual manufacturing costs in refinery work?

A That is true.

Q Through any technicians?

A No.

Q Neither have you made any attempt from a technical standpoint to estimate the cost of transporting from Turner Valley by pipe line?

A No.

Q Those are matters that you have not attempted to study. Apart from that as you say you have, through such avenues and sources as are open to you, you have made enquiries and in 1935, for example, with the Barnsdale Corporation there was made a breakdown of the price structure in Alberta, made by that company?

A That is true.

Q And others?

A Yes.

Q And in your statement where you say you are not an authority on these problems you are referring particularly to the technical work of manufacturing and the transportation of crude through the pipe line and so forth. That is the reference here?

A Yes.

THE CHAIRMAN: What company did you mention, Mr. Brownlee, the Barnsdale?

N. F. Priestley.

MR. BROWNLEE: Yes, in 1935 in the Inquiry that went on at that time, which led up to this contract, the Barnsdale Corporation in the United States, which is one of the big refineries there, sent a man particularly to Alberta and he was here for several days, and starting with the price of crude oil down in Oklahoma, or some place in the United States, he built up the price structure in an effort to show what price he could sell to us for. It is information of that kind which Mr. Priestley has in a very general way. We have not through any technical men made any attempt to study refinery costs in Alberta nor pipe line costs in Alberta.

Q Your object in 1935, I suppose, was to get the best price and the best bargain you could?

A We were out to get the best price and the best contract we could and, as will be stated in this brief, we approached many companies both here and in the United States. I think we approached every company operating in Canada and we approached a number of companies in the United States that had not yet come into Canada. The Barnsdale were approached because they had entered Manitoba but had not yet come into Alberta. It was that investigation which led up to this contract which is now being investigated by your Commission.

THE CHAIRMAN: Yes.

MR. BROWNLEE: Is that all, my Lord?

THE CHAIRMAN: Yes.

Q MR. COMMISSIONER LIPSETT: Just in that paragraph, what do you mean by your experience being confined entirely to the distribution of fuel oils?

N. F. Priestley.

MR. BROWNLEE: You mean that in the broad sense, gasoline and all petroleum products?

MR. COMMISSIONER LIPSETT: All petroleum products?

A Yes. The emphasis should be on the words "the sale and distribution of" as in contrast to these other aspects of the oil industry.

Q I did not know what the next two words covered.

MR. BROWNLEE: It is comprehensive, distillate and gasoline and everything else.

MR. COMMISSIONER LIPSETT: And lubricating oils?

A Yes.

Q MR. BROWNLEE: Just proceed, Mr. Preistley.

A I wish to say at the outset that the parent organization the United Farmers of Alberta, is in full sympathy with the particular aim of this Commission, namely to see whether the price of fuel oils can be legitimately reduced to the consumer. We are a farmers' organization and only entered into the distribution of fuel oils in a co-operative way in the hope that we might make some contribution to that end. We represent directly a substantial number of farmer members and we speak indirectly for many more.

No development of modern times, unless it be the radio, has done so much to break down the isolation of the farm home as the development of the motor car and the consequent development of improved highways. Not only has it broken down the isolation of the farm home by making freer intercourse possible among farm people but the motor car and the motor truck are from year to year becoming a greater factor in the farm economy of the

Province; first by providing speedier and more convenient transportation of goods which the farmer produces such as grain, livestock, cream, etc.; and secondly in widening the range of markets in which the farmer can sell his products as well as widening the markets in which he can buy the goods he consumes or uses. The farmer no longer must patronize the nearest grain elevator because of the limitation of distance; the motor truck has opened up a circle of elevators and given him the use of the loading platform if he desires to use it. Neither must he now patronize the nearest store. The result has been increased competition both among buyers of his produce and the sellers of the goods he consumes. In addition to the development of the motor car and the motor truck there has been the steady development of mechanized farming and the consequent increasing use of fuel oils in the actual operation of his farm. As a result of these developments the expenditure for gasoline and fuel oils forms an increasingly important item in the farmer's annual budget. It is felt that the price of fuel oils is high in relation to the price of products sold by the farmer and therefore any move soundly conceived or wisely evolved to reduce the price of this commodity would of necessity have the support of a farm organization. As an indication of the importance of the price of fuel oils to the farming population it is significant that almost every substantial farmers' co-operative organization in grain-growing areas on the North American Continent now makes the sale and distribution of fuel oils an essential and probably basic part of its enterprise.

N. F. Priestley.

I might pause there, my Lord, to remark that we have inserted a qualifying phrase on the grain-growing areas because there are large farm co-operatives which are now in the production of tobacco and citrous fruits and in dairying industries in various parts of the States that do not handle fuel oils. They may handle lubricating oils but they do not handle fuel oils in any quantity. It is not a major portion of their activities.

As stated above it was in the hope that we might ultimately make some contribution towards lowering the price of this commodity to the farmers that our organization first decided to enter the field of its sale and distribution. The U. F. A. Central Co-operative Association Limited is a subsidiary of the United Farmers of Alberta, a Province-wide organization of farmers which for the past thirty years or more has occupied a prominent place in the affairs of this Province. From the early years of the development of that organization its local units have engaged to a greater or lesser extent in the buying and selling of farm supplies and farm requirements. In the field of marketing farm products it played no small part in bringing into being such organizations as United Grain Growers Limited, the Alberta Wheat Pool, the Southern, Central, and Northern Alberta Dairy Pools, the various Livestock Shipping Associations and a number of minor co-operative marketing associations. At the same time most of the co-operative stores in the early history of the Province had their origin in locals of the organization.

C2
1

About the beginning of the present decade members of the organization had come to realize that the co-operative marketing of farm products was only one phase of the farm problem and that to round out the co-operative idea the Central Office should engage more actively in the co-operative buying of farm supplies.

I might say that the individual locals in the Province have done business as great as $25,000 we think in one year prior to this conception of the centralizing of the purchasing of farm supplies.

In the year 1931 the Annual Convention of the United Farmers of Alberta took cognizance of this opinion and instructed the Board of Directors of that year to take action as an organization. The practical outcome of these instructions was that the existing Co-operative Committee of the Board of Directors was empowered to set up machinery through the Central Office for the establishment of a purchasing agency for its various locals and the various existing co-operative units. The Committee initiated an organization campaign which resulted in the establishment of many units, incorporated under the Co-operative Associations Act of the Province, for the purpose of doing business in farm supplies and it negotiated contracts with distributors and producers in such lines of goods as could be handled in bulk.

I might say that we had in-

structions from our Board that we should not enter into the regular line of domestic supplies, shelf goods, but we were to confine ourselves to bulk goods.

In due course the U.F.A. Central Co-operative Association, Limited was incorporated under the Co-operative Associations Act to carry on the work which had been previously undertaken by the Co-operative Committee of the Board of Directors. This subsidiary and its affiliated units have steadily increased their business throughout the years since 1931. In the first few years the chief lines were binder twine, lubricating oils and coal with fuel oil playing an increasingly large part. Other lines of supplies such as fence posts, British Columbia fruit, farm chemicals, tires, tubes and batteries, flour, poultry supplies and feeds have been developed.

The foregoing has been stated to show the Commission the origin of the movement and particularly to establish the fact that the entry of the organization into the distribution of fuel oils was part only, although a very important part, of the wider business of distributing farmers' supplies on a co-operative basis among the farmers of the Province, having its origin in a general demand of its farmer members and not in the wishes only of a few individuals. It may be stated here that no share capital was raised from the farmer membership. The last decade has been an inopportune time to solicit money from farmers for capital investment. It was felt that the immediate objective should be to save money for the participating members

C2
3

rather than to build an expensive business structure. Surpluses over operating costs were largely paid out in patronage dividends; little was laid aside for reserves; no expensive equipment was purchased at least until recently, and no large amount of capital accumulated.

This answers the question frequently asked, why the organization has not entered directly into the refining and manufacturing of fuel oils. It was felt that the organization did not have the necessary technical advisors and could not afford either to engage such technical advisors or to risk the capital investment that would be required. It was felt it would be more advisable to first mobilize the farmer consumers of the Province in a distributing and sales organization. It is at least comforting to realize that every large farm co-operative distributing organization on the North American Continent, with possibly one or two exceptions, have thought it advisable to enter this field through the distributing end so as to be as near as possible to the consumer.

Q MR. BROWNLEE: Mr. Priestley, if you will just pause there for a moment, you have had occasion recently, I understand, to make some investigations into co-operative organizations, marketing organizations in the United States?

A I have, yes, that is true.

Q What particular ones did you investigate in your last trip?

A The Farmers' Union Central Exchange of St. Paul, Minnesota, and the Midland Co-operative Wholesale of Minneapolis, Minnesota.

Q And are both those co-operatives engaged in a large way in the distribution of petroleum products?

A They are; the Farmers' Union Central Exchange sold 5,704 tank cars of fuel oil to its local member units in 1938.

Q And are they in the refining business, or do they confine themselves to the distribution end?

A They have, each of them, lubricating oil blending plants but have no fuel oil refineries.

Q Now in the last paragraph-----

A I might say, Mr. Brownlee, in passing on that, I put the question as to the advisability of a farmers' organization entering into the refinery business, to the Assistant General Manager of the Midland Co-operative Wholesale and he was emphatic in his view that it was unwise for them so do to.

Q In other words that their emphasis should be laid primarily in mobilizing the consuming power to enable them to make satisfactory contracts with refineries?

A Right.

Q Now in the last paragraph which you read, where you spoke of the risk of capital investment and some of the dangers, had your organization any experience to guide you at that time, or at least to, probably I should use a better word, to caution you as to the kind of contract which you should make?

A Yes. In 1927 and 1928, I am not quite sure as to the exact

date, there arose considerable agitation, shall I say, among the farmer members of our organization for the co-operative distribution of fuel and lubricating oils and after some months a move was initiated by the then existing Alberta Co-operative Council, of which I was acting Secretary at the time, which eventuated in the formation of the Alberta Oil Consumers Co-operative which in the course of the next year or so it succeeded in building in the Province of Alberta some 16 plants, building or acquiring I should say, some 16 plants; their work was all done at the peak of the boom; they paid heavily for organization expenses and for materials and within a very few years the organization was inactive and was ultimately wound up;many of our officers were active in this organization although the organization, our organization, had no responsibility whatever for that co-operative enterprise.

Q I just want to emphasize that now, that organization has been referred to and some of its stations I believe were stations which were taken over by the Imperial, the Northern Oils, and are now part of your stations?

A I understand that is so.

Q But in any reference which has been made before this Commission with respect to the Alberta Consumers Association, it should be made clear that it was not connected with the U. F. A., the United Farmers of Alberta, in any way, shape or form?

A We had no responsibility either morally or financially for the Alberta Oil Consumers Co-operative.

Q All right. Will you proceed with your reading then?

C2
6

A From 1931 to 1935 the Association had a contract for the supply of petroleum products with Great West Distributors, Limited, an organization set up in 1931 by Mr. George A. McKenzie especially for that purpose. At first the distribution of petroleum products was largely confined to lubricating oils and greases. The Great West Distributors had no plants in the Province. With the development of better roads and the use of truck tanks the possibility of the use of underground equipment stations at points away from railway sidings was generally conceived and the distribution of fuel oils through this Company began to assume sizeable proportions. During the year 1934 for reasons which it is not necessary to review here, the Executive of the Association was instructed by its member units to investigate the possibilities of some other connection and at the same time to seek to enlarge the scope of the operations of the Association as commission agents in other commodities. Accordingly in December, 1934, the Executive completed arrangements with its solicitor, Mr. J. E. Brownlee, K. C., to explore the possibilities of such new connections.

Q MR. BROWNLEE: May I ask, Mr. Priestley, when you refer to the contract with the Great West Distributors, without going into the details, was it a contract in most essentials similar to the contract which you now have with the Maple Leaf Petroleum, Limited?

A Very similar in essentials.

Q Am I right in understanding, in that contract the Great West Distributors as a broker handled I believe British

American products?

A Not at that time.

Q Oh, not at that time, I beg your pardon, but in any event, as a broker or jobber, performed the majority of the services, but in consideration for the sales power of your organization passed on part of the commission?

A That is correct.

Q So that in that respect at least that first contract with the Great West Distributors basically was somewhat similar to the contract which you now have with the Maple Leaf Petroleum, Limited?

A Yes.

Q Very good.

Q THE CHAIRMAN: Just there, what is your feeling, Mr. Priestley, as to the necessity of this intervening body; while we have no opinions about it we would like your opinion?

MR. BROWNLEE: I may say, my Lord, that is dealt with rather fully later on.

THE CHAIRMAN: All right.

WITNESS: We will proceed to that now.

It is not necessary to repeat what has already been stated before this Commission by Mr. Brownlee, with respect to the investigations then made. It is sufficient to say that with respect to petroleum products he approached all the major companies then interested in the Canadian field including some independent operators as well as some firms that had not as yet

undertaken business in Alberta.

At the conclusion of his investigation an extensive report was submitted to the Executive of the Association. Among the possible connections made available to the Association were alternative offers from Imperial Oil Limited, the first that the Company would sell the Association on a jobbers basis its requirements of petroleum products at a definite margin under tank wagon price; the other offer being the one which was ultimately accepted by the Association and embodied in the first contract which has already been placed before the Commission. It should probably be stated here that throughout his enquiries Mr. Brownlee approached the problem from the standpoint of the Association acting as a jobber. The proposal which was finally accepted with some modification and which became embodied in the first contract was one which originated with the officials of the Imperial Oil, Limited themselves. This alternative plan was finally accepted by the Executive of the Association as it offered a means of continuing the sale and distribution of petroleum products without the investment of a substantial amount of capital, made available at once to the Association a number of distributing stations as a nucleus for further expansion and generally enabled the Association to operate without the risk of financial loss which would be incidental to the entry into business on a purely jobbers basis.

Q MR. BROWNLEE: The thing which you wish to emphasize in that paragraph, Mr. Priestley, I presume is

that in 1935 you had an offer of two separate and distinct forms of contract?

A Yes.

Q With the Imperial Oil, one a straight jobber's contract by which you would be put on the basis of 5 cents under tank waggon and the other form which was finally accepted?

A That is true.

Q Was any pressure brought to bear upon you by the Imperial as to which of those two forms you should adopt?

A None whatsoever.

Q It was your own considered opinion as an organization that finally led you to adopt the second form of contract?

A Yes.

Q All right.

A In view of certain suggestions which have previously been made before this Commission I take this opportunity on behalf of the Executive of the Association to say that the then Alberta Government was not asked to lend its assistance towards the development of any part of the business of the Association. No member of that Government was asked to exert any influence and the plans of the Association were not discussed with the them Government or any member. Mr. Brownlee acted throughout in his capacity as solicitor for the Association. The contract which resulted was a commerical one negotiated on a competitive basis and accepted solely for the reasons above-mentioned.

I would like to pause, to

emphasize that, my Lord, and Mr. Commissioner. We did not jump in immediately those remarks were made before you in respect to our association and insinuations of political corruption and we have waited until now to make our direct negative statement to those allegations. I may say that there is not one jot or tittle of truth in the statements made by the witness in question.

Q All right, Mr. Priestley?

A The question has been raised before this Commission as to whether there is any proper place in the distribution of petroleum products for a jobbers organization.

I might say there that we are not going to define "a jobber" in this brief. We are speaking for the co-operative and the term "jobber" is, to our mind, somewhat inappropriate as applied to ourselves. We are a central purchasing agent mobilising consumer purchasing power in the field of petroleum distribution and we just wonder who else would mobilise the consumer purchasing power unless it were someone acting in the capacity of a jobber or a central purchasing agent for the consumer.

Q THE CHAIRMAN: Is there not a clean-cut distinction between the organization which you set up, which is an organization of consumers, to get your products at the lowest price; then there is the jobber who is a middle man who is in the business for the profits that will come to him from his operations?

A I think------

MR. BROWNLEE: Did I understand you to ask my Lord, if there is any distinction?

THE CHAIRMAN: Is there a clean-cut distinction.

A I think there is.

Q THE CHAIRMAN: I have been asking other witnesses to deal with that and if it is dealt with later do not bother now. I am trying to find out if the jobber has a proper place in the petroleum industry. If he is adding to the cost. If he is a necessary middle man. We have no opinions as to whether he be a parasite on this industry or whether he is serving a useful purpose but we are certainly inviting opinions from others in order that we may eventually form one for ourselves and I presume that is----

MR. BROWNLEE: I think it is dealt with here, my Lord.

THE CHAIRMAN: It is dealt with.

MR. BROWNLEE: Yes, but the position you are taking now, Mr. Priestley, is that so far as your own particular organization is concerned, that you think that there is a distinction between that and the ordinary conception of the word "jobber"?

A There is.

Q The ordinary jobber, I take it, is one who for his own profit and gain acts as an intermediary between vendors and purchasers and in your case you are an organization of consumers themselves who are seeking to get the best price they can for their products and to distribute it among those as cheaply as possible?

A That is true.

Q THE CHAIRMAN: Which must have an administrative body?

MR. BROWNLEE: Must have an administrative body to carry it out.

THE CHAIRMAN: Of which the witness is the head.

MR. BROWNLEE: Of which the witness is the head.

THE CHAIRMAN: Yes, And that as I see it at the moment is a wholly different thing than the carrying on of the business of a jobber as I understand it.

MR. BROWNLEE: Yes.

THE CHAIRMAN: They are not just related at all as I see it at the moment.

MR. BROWNLEE: But my Lord, I think the position taken in this brief is this, that the witness attempts to make it clear first of all that we do not consider ourselves strictly as jobbers; then however he does go on to speak of some of the functions of the jobber as ordinarily conceived and to state his position.

THE CHAIRMAN: We had better wait until we hear them.

MR. BROWNLEE: And to state his views on them.

WITNESS: Yes.

Q MR. BROWNLEE: All right, Mr. Priestley?

A The question has been raised before this Commission as to whether there is any proper place in the distribution of petroleum products for a jobbers organization. If the contract we have with Maple Leaf Petroleum, Limited, is interpreted as constituting our organization either by itself or in as-

sociation with that Company as a jobber, then on behalf of the Association I wish to point out that in the production and sale of any commodity there are certain recognized cost factors:

1. Cost of raw materials,
2. Manufacturing costs,
3. Transportation costs,
4. Sales and distributing costs including credits and collections.

These cost factors must be met whatever plan of manufacture and distribution is adopted, that is whether the sale and distribution is directly by manufacturers or through intermediary wholesalers or jobbers. The jobber is not peculiar to the marketing of petroleum products. He is found in the sale and distribution of other commodities. Indeed I think there is much to support the argument that the sale and distribution of a commodity may often be carried on with comparatively less cost and with greater efficiency by a jobber familiar with local conditions and with a thorough knowledge of the territory to be served than by a large manufacturing organization whose head office and chief officials may be far removed from that territory. It is suggested that this is particularly true where problems of handling facilities among the farmers of an agricultural district and problems of credit are involved, and where the marketing organization for other reasons has the confidence of a large number of farmers. Certainly our Association believes that because of the position which the United Farmers of Alberta has held

among farmers in Alberta over a period of thirty years, sales and distribution costs among the farmers of the Province can be organized and carried on by it at a lower cost than would be possible by any of the major companies now operating in the Province. As testimony of the truth of this statement we suggest we only need refer to the record of sales promotion since the first contract was made with Maple Leaf Petroleum, Limited, in 1935. The figures are as follows:

Year	Volume	Percentage Increase
1935 (Sept-Dec.)	369,090 gallons	
1936	1,753,120 "	
1937	2,551,001 "	45.51
1938	3,404,768 "	33.41

In other words, in 1937 the gallonage increased over the volume for 1936 45.51% and in 1938 over 1937, 3,404,768 as against 2,551,001 gallons, it was an increase of 33.41% over the volume for 1937.

We advance this argument not only upon the experience of our own organization but believing the argument is amply confirmed by the remarkable development of the large farm co-operatives in the United States of America in the handling of petroleum products during the past decade. This opinion is confirmed in my own mind as a result of a study I have recently made of certain large farmer co-operative associations now carrying on business in the States of Minnesota and Wisconsin which are operating as jobbers in much the same way as we are, that is marketing fuel oil which they purchases from large well established manufacturing companies. From our own experience we express

the conviction that the presence of the comparatively few jobbers organizations in this Province has not increased the retail price of such products and that if by any legislative enactment those jobber organizations were eliminated the retail price structure of gasoline would not be reduced. Certainly our organization would strenuously oppose any proposal which might have the result of making it impossible for us to continue to promote and develop the work in which we are now engaged. I might add that it is not without significance that with respect to farm machinery where the sale and distribution is largely carried on directly by large manufacturing organizations there is more unrest and dissatisfaction with respect to marketing costs than is the case in the sale and distribution of any other commodity.

Q MR. BROWNLEE: Now Mr. Priestley, just to pursue this matter of the jobber a little further and always keeping in mind that you are speaking rather from your own experience----

THE CHAIRMAN: Do I understand this aright, that the impression I get from what Mr. Priestley has read is that he is thinking and speaking of his own organization as a jobber and he is trying to defend its existence.

MR. FRAWLEY: Yes, I noticed that also.

MR. BROWNLEE: We take this position----

THE CHAIRMAN: To my mind they are a wholly different thing. They are a large body of consumers who desire to set themselves up to have great purchasing power and therefore must have an administrative body.

MR. BROWNLEE: Yes.

THE CHAIRMAN: Because they give it a name and create it into a legal entity does not effect it at all, does not affect the position that the consumers are banded together to trade. I do not see what it has to do with the jobber question.

MR. BROWNLEE: My Lord, I think this is the position, and Mr. Priestley will correct me if I am wrong, that it is taken on this basis, first of all we do say, as you have expressed it that way, that is the U. F. A. Central Co-operative Association, Limited, is not a jobber organization in the ordinary sense of that word. We then go on to say if however by reason of their contract with the Maple Leaf, in which the organizations enjoy the usual margin which is given to jobbers, if by reason of that, the combination should be considered in the nature of a jobber, then we express our opinion as to the position of the jobber and now I am going to ask Mr. Priestley directly what in his opinion would be the result if these other jobbers, such as the North Star and so forth, were eliminated from the picture in this Province, so to that extent he will be expressing his opinion on the general question of the position of the jobber in the Province.

THE CHAIRMAN: Yes. Perhaps that is one approach to it but in the end, however it is approached, I would be very much interested in hearing Mr. Priestley's views, representing the great farmer class as he does, as to whether he sees some necessity of the middle man.

MR. BROWNLEE: That is the question.

THE CHAIRMAN: I mean over and above your other contracts here. That is the bigger question, the consumers in Alberta have a middle man intervening between the refineries and themselves as distinguished from the refineries marketing department or organization doing that work.

MR. BROWNLEE: Yes my Lord, and now I will ask Mr. Priestley that very question and I will put it this way and we will illustrate it by this chart Mr. Priestley here, and this may be taken as a typical district in Alberta, Exhibit "320", and here we have three refinery companies, the Imperial, British American and the Gas and Oil Products, Limited?

A Yes.

Q And you also have the North Star Oils which is a jobber; the Great West Distributors which is a jobber and the Maple Leaf Petroleum, Limited, which is a jobber. Now taking that as a typical picture throughout the Province, what would you say might be the result if by legislation or otherwise these jobbers were eliminated from the picture, would it be to the advantage of the consumer or against him?

A Well I would have to preface the direct answer to that question by stating that it depends to my mind considerably on the psychological attitude of the people of the Province towards restrictive legislation. If the people of the Province were seized with the idea of the rationalization of industry, to use a term which was current some years ago in Britain, and the great majority of them

got behind the idea, something might be effected but if that postulate could not be granted, I would say that the effect at a place like Leduc which Mr. Brownlee has suggested as an example, would be to place the distribution of the petroleum products in the hands of the three companies that are refining and marketing at that place, two major companies and one samll company; that the consumer would have less say in the ultimate price to himself, than he now has because the jobber in my opinion does act or can act as a mobilising factor for the consumer. He is a competitor. He enters the field. He is a disturbing factor.

Q To the refiner?

A To the refiner. He enters the field and gathers around him a certain number of persons by his energy and good-will and his sales appeal; true he may be selling under a brand name, an identical product of somebody else who is already in that field, but he goes into that field and secures a portion of the business and thereby assists in breaking down the monopoly which would otherwise prevail.

Q In other words are you suggesting that he performs a service by mobilising the consumer purchasing power, would you put it that way?

A I would say indirectly he does. He does not do it consciously, that is what we are doing, that is what we are doing.

Q But to some extent he does?

A To some extent he does.

Q THE CHAIRMAN: Oh, he is getting all the

customers he can for the profit which will accrue to him?

A Yes.

Q MR. BROWNLEE: But by making contracts with those customers to a greater or less extent he does put himself in a position where he has a certain power in negotiating a price, is that your view?

A Quite so. We have instances in the Province where men have proceeded from little to big, by so doing, and there are cases where men have gone into the refining business ultimately, having secured a hold after purchasing products, by means of a brand name or their connections in the local point.

(Go to number 12,043)

N. F. Priestley

Q What have you to say, if anything, with respect to the suggestion that was made yesterday that in the province at the present time there is no factor that really influences the price? That the price is pretty well fixed by the large refiner?

A Well, I would hope that is not entirely true. It is true we have only been in the business of distributing fuel oil for some seven or eight years, but we have in the meantime paid out, in all commodities, the sum of $82,000.00 in patronage dividends, which has been, in effect, a reduction in the price to the consumer. We are now the sixth largest distributor of fuel oil in the Province of Alberta. So that there is at least one organization that is not absolutely bound by any posted tank wagon price. There is no restriction as to the amount of dividends we pay.

Q In the United States of America, which you have studied to some extent, would you say that the jobber there has a definite place and has been playing a part in the price structure?

A My study is all too brief and cursory, I will have to admit. But I recall that years ago there was a popular belief that the Standard Oil had the oil industry entirely under its control in the United States. In recent years, I have, as a reader of Gas & Oil Journals, come to the conclusion - and also as an occasional visitor to the States - come to the conclusion that there is active competition. That there is not longer absolute control by any one or two or three great petroleum products refiners of the retail price.

N. F. Priestley

Q THE CHAIRMAN: I notice in your brief you say that these farmer co-operative associations in the United States, carrying on business in the States of Minnesota and Wisconsin, are operating as jobbers in much the same way as you are. That is a question whether you are jobbers in the strict sense of the word. At any rate, they are an association such as yours, and you add "They are marketing fuel oil which they purchase from large well-established manufacturing companies." Now that would seem as though those bodies of consumers did not have a jobber intervening between them and the refiner?

A The statement is perhaps not as ample as it should be in that respect. I may say that the co-operatives are doing business in more than two States. Those are the States which I entered and in which I made my investigation. The largest operation of the business of the Farmers Union and Central Exchange is in North Dakota and they do business in Montana and Idaho.

Q Do they have a jobber between them and the refiner?

A They purchase - I think they have jobbers, but I am not absolutely sure as to that, between them and some refineries. But they purchase to advantage as to tank wagon rates from particular refiners. They do not contract. It is in the nature of things that they cannot economically contract and take a supply from any one refiner because as between them and that one refiner there might be odd members of their local units who would be able to purchase more advantageously than the local tank wagon rate from some other refiner. They are in the tank car market.

N. F. Priestley

They buy from whomsoever offers them a proper standard of gasoline according to their requirements.

Q But the picture you are now painting does not show a jobber in it, does it? They buy tank wagon from the refiners at the lowest price they can?

MR. FRAWLEY: Tank car.

Q THE CHAIRMAN: Yes, tank car?

A Tank cars of fuel oils are offered on the market in the United States, as the Commission I am sure is well aware, every day at varying prices, and these co-operatives I am sure do business with any organization, either refiner or jobber, that on a particular day offers them their requirements at a suitable location at a suitable price.

Q MR. FRAWLEY: We have not got that in Canada at all, of course. We have not got that in Alberta?

A No, we haven't that picture.

Q THE CHAIRMAN: Now, most of these refineries have marketing departments, haven't they?

A Yes.

Q What I am trying to get at, and please do not think we have come to any conclusions about this because definitely we have not, there may be a great need for jobbers. I am trying to find out what it is. If the refinery has a marketing department it certainly should sell its products through this marketing department. If the jobber is making a profit it stands to reason that that profit is a loss to somebody else, whether it be the consumer or the marketer. It might be there are many answers. It might be that it would lead to monopolistic abuses for example. But I would like to know what they are to the

N. F. Priestley

extent you have thought about them, what are the reasons for the jobber being there? Forgetting for the moment you treat yourself as a jobber. I am talking about the intervening man who has nothing but his own pocket book to serve. Is there any reason other than that he may serve to keep refiners from being guilty of monopolistic abuses? Does he serve any other purpose?

A I would say, My Lord, in answer to that question, ideally the intermediary is unnecessary and sometimes a nuisance.

Q And an expense?

A Yes.

Q Is not the underlying thought of bringing into being your organization to get direct to the source of supply? Is not that why you exist?

A That is quite true. I take it you are asking for my opinion.

Q Your own personal views?

A On the general question.

Q Yes?

A And not speaking now particularly as an officer of the co-operative association.

Q No?

A I would say that ideally there will be no such intermediary person taking a profit for the service which may be performed perhaps as efficiently by other persons more directly interested in the manufacture and sale of the product. But in a competitive world, which tends at the moment to be more and more monopolistic, I would say until that condition is corrected, the jobber performs a useful function in that he breaks down the monopoly. He is another person approaching

the consumer and mobilising the consumer's purchasing power in blocks whichmay be directed to one refinery or another, and where there is genuine competition between refiners or producers of any commodity, that does then become a useful function in society.

Q MR. BROWNLEE: Can we gather from what you said, looking at the position in Alberta today in 1939, that you would prefer to see the jobbers in business than out of business because they break down the monopolistic control to that extent that other people, jobbers, have contacts with the consumer. Is that your view?

A That is my view under Present circumstances.

MR. FRAWLEY: How?

Q THE CHAIRMAN: Yes?

Q MR. FRAWLEY: How does the jobber in Alberta, as we know him and as he lives and functions in Alberta, how does he break down the monopolistic control, if there be any or any tendency towards one?

MR. BROWNLEE: By controlling consumers.

A I have already stated, My Lord, that by gathering a block of persons under his own business arrangement, he is in a position to go to a refiner - we will assume that there are in the Province of Alberta and have been some refiners - there is the Imperial and the British American and smaller refineries and the jobber is in a position to go to the consumer and gather him under his organization, that is, by building up goodwill at local points through certain agents. If the jobber, for instance, has one hundred agents in the Province of Alberta at one hundred different points, that jobber has a goodwill among the consumers at those points.

N. F. Priestley

He achieves a throughput of we will say an average of 25 or 30 or 50 thousand gallons per annum at each of those points. The jobber then having one hundred times that average throughput of 50 thousand gallons is in a position to go to the refinery in the Province of Alberta and say "Now what is your price for me?"

Q Yes?

A To the extent that that mobilization is perfected, he is a genuine factor in the situation in the Province of Alberta.

Q MR. BROWNLEE: And may become an increasing factor in future years to the extent that he mobilizes that body of consumers.

Q MR. FRAWLEY: If the North Star Oil Company, a jobber of the Imperial Oil, do you suggest that the North Star first goes out into the Leduc district and mobilizes these local farmers? Let us assume that. There has been nothing here to indicate that, he did anything more than go to Leduc and set up his stand and go out and find some gallonage. Let us assume he got a group of consumers and we called that his Leduc gallonage. He goes to the Imperial Oil and gets the jobber price. What does that do for the Leduc consumer that buys from the North Star, in the cold facts that we have to face? He buys on the same basis. He pays the North Star that which he paid the Imperial Oil before the North Star went there, and afterwards, and so on ad infinitum?

A I would suggest, My Lord, that we are here in a pioneering area where the petroleum industry has developed along certain lines. There is no assurance that ten years from now

N. F. Priestley

there will not be some genuine type of competition, the same type that exists in the United States, in the Province of Alberta. If the jobber is eliminated, there will be less likelihood of it taking place.

Q You say dealing with what we have in 1939 there is no competition between the jobber and the direct marketer?

A Well, I have seen since we went into this business a number of persons starting in business as jobbers who have now become very effective distributors of fuel oil, and they do cause some trouble to the major companies.

Q How? That is what I am interested in?

A In price.

Q Now, Mr. Priestley, where has this competition of the jobber reflected itself in the price structure of the Imperial Oil which governs the situation in Alberta?

A Well, I cannot say. All I can say is that since we undertook our contract with the Maple Leaf Petroleums Limited there has been a 6¢ or 6½¢ decrease in the price of 3 Star Gasoline and its equivalent in the City of Calgary.

Q Oh, yes. You have not analysed how much of that is due wholly to the reduction in the price of crude in Turner Valley?

A No. But I see the tendency. I do not know what part the jobber plays in that tendency.

Q Are you suggesting, then, and certainly I invite your suggestions, do you suggest that the Maple Leaf Petroleums Limited, your jobber, has had anything to do with the price reduction that was posted by the Imperial to which you have just referred?

A Well, I would not say that they were a major factor in it.

N. F. Priestley

I would say that in their relations with the consumer through ourselves they reflected a desire of the consumer for a lower-priced product. We must remember, My Lord, that there is a constant going to and fro across the international boundary. There is a feeling among consumers who travel across there and occasionally get cheap gasoline that we are being required to pay too much in the Province of Alberta. And coming back here, he talks to his neighbor. His discontent is evidenced in our organization from to time.

Q Yes?

A And we pass that discontent on to our supplier. Our supplier makes known our desires along that line, and we may have been somewhat of a factor in the price reduction.

Q Well now, what you say though is essentially that Montana gasoline coming in, that free interchange of products over the international line may have borne in upon the person who fixes the price and he may have listened to that and amended his prices accordingly. Surely your company would be nothing at all but simply conveying the information and I suppose the Imperial Oil themselves are very, very much alive to what that Montana competition is doing and of their own accord, without the slightest regard to their jobber accounts, will adjust their prices accordingly?

A I would not confine it entirely to the importation of Montana crude.

Q What else, then?

A For instance, we had for many years the Imperial Oil Company was the only refinery in the Province of Alberta having a cracking process.

N. F. Priestley

Q Yes?

A They imported crude.

Q Yes?

A And the presence in Alberta of a naptha field, to which farmers could go and take delivery at the well head, no matter how badly it stank, had something to do with the price reduction.

Q That is fine. That is another one?

A And then the discovery of a crude oil pool with a potential output of 60 or 70 thousand barrels a day, had further to do with it.

Q Yes, quite!

A And the general depression of farm products prices, for instance, and the feeling that there is a great deal of unrest among the public, that might have had something to do with it.

Q Quite. But would not all these things have been just as active and effective if the Imperial Oil and the British American had been marketing their own product without the intervention of jobbers? Surely all those things you have mentioned.....?

A I am not so sure. There are contacts with the public. Now take for instance in a particular village in the Province of Alberta, there are just the Imperial Oil and the British American, the two major companies of Canada. It is conceivable that they would be, and there might be of course, a feeling of a pure monopoly growing up among the people of the district. But if they found that there were no differing conditions from those which existed in other communities round about, they would have no grounds for special unrest,

N. F. Priestley

and special resentment against these two companies. But if there were in that village a number of other agents actively going out among the farmers of the district, for instance, the consumers of the district.

Q Yes?

A Suggesting that they buy from them, would there not be a tendency to price reduction?

Q Well, I would think Mr. MacKenzie for instance - now we are dealing with these names because they are typical of course - if Mr. MacKenzie went out into the Leduc area and talked prices, forgetting the Imperial Oil price structure or the British American, his supplier, and talked prices to the farmers, and made himself felt as a factor in the marketing structure that way, then I say with respect there might be some point to this suggestion you are making. But what has Mr. MacKenzie done to the price structure in the Province of Alberta except to follow religiously the prices laid down by the Imperial Oil from day to day?

A I am not speaking of Mr. MacKenzie.

Q Any one of them. I only mention that to facilitate cross-examination, that is all?

A I would say, for instance, there was some evidence given you yesterday on the question of standardization, and is it not a fact that various types of trucks and tractor engines in this province, that there are a great many opinions as to the value of certain fuel oils, and in the lower range price quality, there has been very active competition.

Q Yes?

N. F. Priestley

A Very active competition.

Q Yes?

A Competition which has had its effect on the price of the standard brand.

Q That is right. Who supplied that competition?

A I would say the jobber has had much to do with it.

Q And I would suggest the independent manufacturer, the Gas & Oil Products and the Lion Oils Company, supplied that intense competition on third structure gasoline and tractor distillate you speak of. I think that is history. But I am talking about the jobber who buys every gallon of his product on the refinery and goes out into the field and competes side by side with the refinery. I am asking you, like the Chairman, what is the function that he serves except to himself? But to the consumer. Where can you put your finger on any benefit to the consumer from the particular - not the ideal jobber operation that you speak of existing in the United States, we have to pass from that - but the jobber operation we have in Alberta. Where he delivers from January to December on a long-term cont act and gets all his supplies from a particular refiner and follows, as we all know he follows, the Imperial Oil price structure. Where does that particular kind of jobber, and not the jobber who buys here today and there tomorrow as they do in the United States, and who probably does not follow the major oil company's price structure - but this particular jobber as we know him in Alberta. Where has he benefited up to date the consumer?

MR. BROWNLEE: Is your answer in the hope of the development of the thing that they now have in

N. F. Priestley

the United States?

Q MR. FRAWLEY: It is a long-term thing, something in the future?

A I am interested in that.

Q That is your answer?

A I do not know, Mr. Frawley, whether you have in mind some company, some particular jobbing firm.

Q No, just jobbers as we know them, the North Star, the Canadian, the Union, the McColl-Frontenac and the Maple Leaf. The B. A. has MacKenzie and the Bell Refining Company. The Texas Company has the Artic?

A I can certainly say, without referring specifically to these by name, that there have been in the course of several years past, instances in that list that have been active in competition on price.

Q Active in competition on price? Are you referring to all structures or only third structure?

A I would say in all structures excepting Ethyl.

Q I would like to know about this! That is what I am interested in. When you say active competition, where have they gone out and established a new price?

A I would say for instance right off the bat that the segregation of structures has not been well defined until very recently. Premium and "Q" and the third grade gasoline have only recently come to be identified as such in the mind of the ordinary person and even among people in the business were not aware of these classifications until relatively recently.

Q But where now have these jobbers of the type I have instanced,

N. F. Priestley

where have they gone out and made a new price? That is the thing I am interested in?

A I am free to confess I do not know of any price reduction, anything much below the posted tank wagon price in Ethyl and "Q".

Q That is standard, yes?

A But in respect to tractor gasoline.

Q Yes?

A Which is a very important part of our own business, we know positively that there has been a great deal of price competition?

Q By whom? Supplied by whom? That is what I am interested in?

THE CHAIRMAN: Has the jobber done any of it?

Q MR. FRAWLEY: Or has it been the refiner?

Q THE CHAIRMAN: Has Mr. Plotkins or has Mr. Mayland been very busy providing it? They are refiners, and that is what Mr. Frawley wants to know. Can you speak of any of their jobbers or any other jobber that has affected the price?

A Certainly there are two among the list cited that have done that.

Q MR. FRAWLEY: Who, of those I have given you, who?

A I do not really care.....

Q You can be very frank, Mr. Priestley. There is no reason not to be?

A The reason I do not want to segregate them is there may be others.

Q But if you know of two, I would like to have them?

A I would say the Great West Distributors and the Bell Refining

N. F. Priestley

Company, two of which you have cited, have definitely competed in third structure gasoline.

Q That is the Great West Distributors and the Bell Refining?

A Yes.

Q Those are both B. A. jobbers?

A I know more about them than I know about the others, and that is why I cited them.

Q I would like to have some instance of it, because that is what I am interested in, and we will try and analyse it fully and follow it through and find out just the causes. Mr.MacKenzie is coming to give evidence.....?

MR. BROWNLEE: Are you confining your question to gasoline, or do you include lubricating oils, because brokers handle both?

MR. FRAWLEY: I am merely talking about gasoline, but the Commission embraces lubricating oils. It is third structure gasoline and tractor distillates you are speaking of?

A Yes. I cannot state a particular date or case in which this happened.

Q I am coming back to what you said a moment ago, what you meant to convey was that if the Great West Distributors and the Bell Company went out and set a competitive price of their own that they were not being basically forced to do it by the two local refineries, the Gas & Oil Products and the Lion Company. That is where really that push came from?

A I would say that the push comes from the farmer in the case of third structure gasoline, because it is known and well known that he has in the past sought cheaper products

N. F. Priestley

even to his own detriment in some cases by visiting Turner Valley and by mixing naphtha with heavy distillate and so on.

Q Yes, we know about that. But that competition, I suggest to you, as a factor in forcing the Imperial Oil Company itself to lower its third structure price was the competition that the Imperial Oil received from the Gas & Oil Products when they first put third structure on the market, and resulted in the Imperial putting its third structure price away down. I want you to tell me if you can where essentially on their own account the jobber, the pure and simple jobber, put the price of any structure of gasoline down, on his own account?

A I do not wish to be evasive. I do not wish in any way to be thought evasive. I am not interested in the business arrangements of this company and I cannot cite them.

Q It is not really fair to press you any further. I thought that you did. Because I value your views, Mr. Priestley, because of the people you speak for and your experience in this business. Is there anything more you can say? I made a note that you said you believed that a jobber was a disturbing factor. I presume what you have been saying just now is an elaboration of that statement. You feel he is a disturbing factor?

A Yes.

Q I suggest to you unless the disturbance might be reflected in price reduction, I cannot think of any difference?

A As previously stated, My Lord, I am not here to defend the jobber. I have been asked for an opinion on the matter and I have expressed it. And I feel that we cannot

N. F. Priestley

confine our attention entirely to 1939. As one who is making some study of the price structure of petroleum products in the United States, I would say that there might be a useful function performed by the jobber in this province.

Q In the future?

A In years to come.

Q You say "Let us suffer him for the time being, he may be of some good to us."

MR. NOLAN: He did not say that at all.

MR. BROWNLEE: He has not made that statement.

Q Mr. Priestley, can we sum up the question somewhat differently this way, that from the time the gasoline is manufactured until it is sold there are two distinct factors. On the one hand there is the manufacturer and on the other hand there is the big body of consumers; at the present time we may have something in the nature of a monopoly with respect to manufacturing?

A That is right.

Q And that the reason you want to see the jobber preserved in the picture is you do not want to see that monopoly extended or strengthened by the only and sole contact or easy contact with the consumer, is that your view; and that you think to do away with the jobber would be extending that monopolistic control, which at the present time largely is there in the refining end and it would be extending that or strengthening it by giving sole contact to the consumer?

A That is what I think. I do not think it would be an advantage to the consumer in Alberta if there were only two major refineries and one or two small refiners, and no other

N. F. Priestley

marketing agency.

Q And may we also raise this question, that in looking at the scheme of distribution of the commodity in Alberta that price is not everything and that quality of service accounts for a great deal?

And that possibly in those factors of quality of service the jobber, the so-called jobbers, may have been quite a factor?

A I would think so.

Q At any rate, you size up your opinion for what it is worth and after such study as you have made that you would rather see the jobber preserved in the picture in Alberta because of what might happen in the future and his effect today?

A That is always providing my first premise is not in the picture, that is the psychological condition.....

Q I understand that. I think you also say in your written statement that you do not think that the presence of the jobber in the province has substantially increased the price to the consumer or has been a factor in increasing the price to the consumer?

A I do not think it has.

Q And I suppose that you do not know of any evidence of any kind which would indicate the jobber has not been a factor in some of the price reductions. In other words, there may be an assumption he has not, but there is no proof that he has not, so far as you know?

A No evidence has been presented to me to that effect.

Q Without some evidence to prove that he has not been a factor of that kind, would you prefer he should not be disturbed?

A That is so.

MR. BROWNLEE: Now, My Lord, do you wish me to go on any further now? I do not know what your practice has been but I understand you have been in the habit of adjourning?

THE CHAIRMAN: We will have a recess now and when we return I propose to ask Mr. Priestley - unless it comes up later in his brief - what he thinks about standardization which I was discussing with a Witness yesterday.

MR. BROWNLEE: I may say, so you will understand what this Witness's testimony will be, we go on from the question of the jobber first to the number of distributing and the over-lapping of distributing outlets. Then we deal briefly with the co-operative movement, as such, and then we deal specifically with the contract with the Maple Leaf and then I propose to ask the Witness what the attitude of his organization is with respect to standardization, and I propose to ask the Witness what his views are with respect to the barrel service which was discussed yesterday. I propose to ask him what his view is with regard to free delivery service. That is all we are here to give evidence today on. I thought I would state that now so that you would understand just what the evidence will be.

THE CHAIRMAN: Very good. Then we will take a short recess now.

(Go to Page 12,061)

MR. FRAWLEY: Mr. Chairman, please, Mr. Davidson has everything to file now so that he himself personally can be excused. He has two or three things.

FREDERICK ALEXANDER LYALL MCLAGAN, having been recalled, examined by Mr. Frawley said:

Q Will you just tell us what they are and we will file them, the first is what?

A A list of trucks financed by the Maple Leaf Petroleum as shown on Exhibit "512".

MR. FRAWLEY: This is a statement of trucks financed as of the 31st of December, 1938.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "523".)

Q MR. FRAWLEY: And the next?

MR. DAVIDSON: This is really an answer to question number one as asked by Dr. Frey but it is Maple Leaf Petroleum Limited, the following data summarizes principal physical equipment and personnel employed in our direct marketing operations in the Province of Alberta as of December 31st, 1938. Now you ask for more copies than I am giving you there. There are five there.

MR. FRAWLEY: I think these will do. This will be Exhibit .....

THE CHAIRMAN: Exhibit "524".

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "524")

Q MR. FRAWLEY: And the next is what?

A This is the tank wagon prices at the Maple Leaf Agencies as of January 5th, 1938.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "525".)

F. A. L. Maclagan

Q Yes, what next?

A The tank wagon prices at Maple Leaf Agencies as at June 21st, 1938.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "526")

Q Yes?

A And tank wagon prices at Maple Leaf Agencies as of September 9th, 1938.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "527")

Q Yes?

A Those are all.

MR. FRAWLEY: Thank you very much.

MR. DAVIDSON: Do you think that is all you may want?

MR. FRAWLEY: Yes, I think that is all.

MR. BROWNLEE: All right, Mr. Priestley.

NORMAN FLAXMAN PRIESTLEY,

having been recalled, examined by Mr. Brownlee said:

Q Now Mr. Priestley, I think you had done your reading to the end of the first paragraph on Page 12, will you proceed from there, unless there is some other question, Mr. Frawley?

MR. FRAWLEY: No.

THE CHAIRMAN: I have just one question before we leave the jobber matter, I was wondering about, take your own case of the Maple Leaf, if the Maple Leaf makes a profit, the Imperial Oil enjoys two profits, does it not, with respect to the products sold to your people through your organization?

N. F. Priestley

A Yes, a refining profit and a distributing profit.

Q It makes what profit it would make selling to the jobber and it makes the profit that the jobber makes in selling to you because it is a wholly-owned subsidiary, is that right?

A Yes.

Q Why would it not have advantaged you to have dealt directly with the Imperial?

MR. BROWNLEE: That problem is dealt with here later on, My Lord.

THE CHAIRMAN: All right. Perhaps I had better let you proceed.

WITNESS: Yes, I may say that we deal at some length with the question of why we dealt with the Maple Leaf instead of the Imperial.

THE CHAIRMAN: There is one more thing and you can tell me if you do deal with that, Mr. Brownlee, and that is, what are Mr. Priestley's views, at least we would like to have Mr. Priestley's views on the selling of gasoline, which is exactly the same product, under a trade name, for example Maple Leaf built up a business we were told by manufacturing Montana products, they came up here and they now sell Imperial gasoline under that name to your people through Mr. Priestley's organization; every jobber, as he is entitled to under his contract, works up a name of his own and the public think they are buying a different and a better product, depending upon the amount of puffing which goes on about it, do you think they should know what they are buying, do you think that it should not be a matter of salesmanship but of quality, measured by

some proper yardstick?

A Do you wish me to answer now?

THE CHAIRMAN: Do you deal with these trade names at all in your brief?

MR. BROWNLEE: No, we do not deal specifically with that although that was one of the questions which I intended to ask but it is just as well to do it now.

THE CHAIRMAN: Not unless you prefer.

Q MR. BROWNLEE: Quite, all right?

A I may say that I was impressed yesterday by the question you asked in respect to standardization, My Lord; our organization some years ago at annual convention assembled passed a resolution asking the Government to set up definite standards.

Q When was that, Mr. Priestley?

A I cannot give you the exact year. It is some years ago.

MR. BROWNLEE: Somewhere around 1935 or 1936.

MR. FRAWLEY: It was about the time the work was undertaken by the University and never came to any fruition.

A Yes.

MR. FRAWLEY: A lot of work was done.

THE CHAIRMAN: You think it was when, Mr. Brownlee?

MR. BROWNLEE: I think it was somewhere around 1935 or 1936, 1935 perhaps.

WITNESS: I think it was 1934 or 1935, I am not just sure.

Q THE CHAIRMAN: Yes?

N. F. Priestley

A And I would say speaking personally that it is very desirable, perhaps more desirable in this field than in some other fields in the petroleum world, in that we have, had at least, and have now to some extent the factor of raw gasoline and in respect to the third structure gasoline there has been no distinquishing quality and there is a great deal of looseness about distillate and tractor gasoline and tractor fuel; the farmer thinks he is getting something and he does not know what he is getting. I think it would be advantageous to all persons who are definitely in the industry as against the occasional trucker, for instance, or persons seeking to make the maximum profits on some momentary sale, on an individual sale, it would be a definite advantage to the industry, and certainly a great advantage to the consumer, if the vendor were require to rate the fuel as having such and such an octane rating.

Q MR. BROWNLEE: You mean by that, maximum or minimum ratings?

A Yes, have a certain minimum for a certain price or a certain standard.

Q THE CHAIRMAN: So that the farmer, would know, from whomsoever he bought or wheresoever he bought, he was getting a product which was at least up to a certain standard?

A Yes.

Q And the competition between competitors could pass that standard?

A Yes. I would say that there is somewhat the effect of

standardization now in respect of Ethyl of course because of the requirements of the Ethyl Corporation in respect of Ethyl gasoline and in respect of "Q" gasoline because of the general tendency to ethylize the "Q" gasoline.

Q But we are told that there are not the same requirements with regard to ethylizing the standard gasoline, the "Q" gasoline as they have with the Ethyl?

A No.

Q They have not the same strict concern?

A That is true but trade journals and conversations such as I have had indicate that there is a general tendency to lead standard products to a much higher amount than previously; in fact the whole tendency is such as to, in my humble opinion, to rather rob the Ethyl Corporation of some of the benefits of its organization.

MR. BROWNLEE: In any event, with regard to standardization, the convention has gone on record, and it completely supports the idea?

A Yes.

Q And endorses the principal of standardization?

A Yes.

Q Of certain grades?

A Yes.

Q Now you heard what His Lordship had to say, if I have correctly gathered what you said, My Lord, you wish an expression of opinion as to the propriety of having started out under a certain trade name, Maple Leaf, and using a product that was originally sold from one refinery and then continuing to sell another product

under the same name and what is ---

THE CHAIRMAN: Without making it known.

Q Without making it known to the producers?

THE CHAIRMAN: To the consumer.

Q MR. BROWNLEE: To the consumer I meant.

THE CHAIRMAN: Yes, and my thought is, Mr. Brownlee, I have not in mind particularly your organization and its activities at all.

MR. BROWNLEE: I understand it is just the principal.

THE CHAIRMAN: Let us say that it is the Imperial gasoline or the B. A. gasoline, as it is well known, and it is advertised under the name "XYZ" gasoline, is it right that overnight someone using that "XYZ" brand goes to the public and sells "XYZ" gasoline when it is something wholly different from the product which is known under "XYZ".

MR. BROWNLEE: Well now, Mr. Priestley, --

THE CHAIRMAN: Is it not a false pretense.

MR. BROWNLEE: You are seeking, My Lord, Mr. Priestley's answer to that question, whether it is a proper practice?

THE CHAIRMAN: What his view is about it. I am not suggesting for instance that your particular organization's product is not of the same quality and perhaps better than what the Maple Leaf put out from its Coutts refinery.

WITNESS: Yes.

THE CHAIRMAN: But it is not the same and I just want his views generally.

Q MR. BROWNLEE: What have you to say to that, Mr. Priestley?

A Well, My Lord, I do not wish to pose as being over pious or anything like that but I am adverse to deceiving practices and an examination of our advertising over the last many years will show conclusively that we have not made any song about the quality of our gasolines or fuels and I may say that where I hear it done, I have many reservations.

Q MR. BROWNLEE: Do you mean by that, I do not want you to be misunderstood there, Mr. Priestley, you do not mean by that that you have not advertised it as a good first grade?

A No.

Q But you have not advertised it as by octane?

A No, I was just going to say that we have assured our customers and the general public when we attempt to secure their business that we are handling a good, first class product, equal in all respects to any product on the market. That is as far as we go in boosting the quality of our gasoline and in answer to your question I would say if there were a standardization, a category of standards and there was a distinction "premium octane gas", "standard gas", "tractor gas" or any such set of names, that then a co-operative attempting to enter a highly competitive field could carry on its business under those circumstances without attempting to give a particular name or brand or at least a quality to

its own gasoline or products but I find however ---

THE CHAIRMAN: They would have the assurance too, it would be an assurance, would it not, without engaging experts, analysts and the like, it would have the assurance that it was within the range of what it was buying to a minumum at least?

A That is true, but we would then be under the necessity of saying to our customers, to our farmer members, "Buy Co-op gasoline". Now under those circumstances we have to give it a name to distinguish it from other names in order to do our trade talking and to hop from one to another is to destroy some of the sales efforts of past years. We would have had a lot of explaining to do, for instance when the Coutts refinery was closed, if we had said "Now we are no longer marketing Maple Leaf gasoline, although we are marketing through the Maple Leaf Company, we are marketing a gasoline produced in the Imperial Oil Refinery". Now any intelligent, well-informed person would have known from the beginning it was uneconomical for us to bring our gasoline from the Maple Leaf Refinery in Calgary to points north of Calgary as compared with our ability to buy it at Calgary, so much nearer the point in question, but the general public is not well-informed about these matters so we have conformed to the practice of continuing to call our gasoline, no matter where it is refined, by the name of the company from whom we buy. The Farmers Union Central Exchange, if I am correctly informed, and the other co-operatives that I have studied, buy from various refineries but they are

now calling their gasoline "Co-op Gasoline". They have secured protection for the name "Co-op" under the National Co-operative Incorporated and the National Co-operative Incorporated makes contracts with refineries for gasoline, for many co-operatives, many of the large regional co-operatives. They have all joined together. They have pooled capital for the National Co-operative. The Midland Co-operative for instance and the Farmers Union Central Exchange, as I have said previously, are each working in the Twin Cities, St. Paul and Minneapolis, they do not overlap a great deal but they do a little but they both sell "Co-op". One sells "Farmers Union Co-op Gasoline". The other sells "Midland Co-op Gasoline", using various names, just as we name ours "Ethyl Maple Leaf" and "Maple Leaf" and "Alta Gas". Now how could we do otherwise under the present system unless a set of standards is created which is authoritatively designated as such, eliminating the necessity for a trade name, I cannot see.

Q. THE CHAIRMAN: In these cases where the co-operative associations in the United States are selling what they call "Co-op Gasoline", I suppose they have gasoline made according to their own specifications by the refineries?

A Yes.

Q They know exactly what they are selling under that name?

A Yes but even they, in a word brand, under competitive conditions, have to designate their various grades by name in order to distinguish them from their own particular farmer members.

THE CHAIRMAN: Yes.

Q MR. BROWNLEE: Mr. Priestley, your organization is somewhat different from the ordinary organization in this respect that you hold an annual convention every year?

A Yes.

Q And the delegates come to that annual convention from the locals, that is where you have your members grouped, in locals?

A Yes.

MAJOR LIPSETT: Are you speaking now of the parent company?

MR. BROWNLEE: Well the convention takes place at the same time. They take a day, is it not true, Mr. Priestley, they take a day or a half a day, the United Farmers of Alberta, in order to discuss the affairs of the Co-operatives?

A They present an annual report to the annual convention of the United Farmers of Alberta, the parent body.

Q And there is an opportunity given at that convention to discuss the business of the co-operatives?

A Thoroughly.

Q And any question such as the question of where you get your gasoline supplies can be raised and there is no attempt to disguise from the convention or conceal from the convention any question which they may seek to ask along that line?

A Certainly not.

N. F. Priestley

Q And in the same way your other supplies, binder twine and so forth, you are equally frank to your delegates stating the place of manufacture when it is asked?

A Yes, I may say in reference to the first question, Mr. Brownlee, it was not clear to us as to what the connection was between the Maple Leaf and the Imperial in the first instance.

Q We deal with that later in the brief?

A Yes, but I want to be clear on that because we may have made answers to questions at our annual convention at that time which now with our greater knowledge might appear to have been incorrect.

Q And in your advertising your representations toyour customers and your members, you have from the beginning simply assured them that you were selling them a first rate grade of gasoline?

A Yes.

Q And the guarantee to your particular purchasers is the standing of your organization, your parent organization?

A Quite.

MR. BROWNLEE: Any further questions on that, My Lord.

THE CHAIRMAN: No.

Q MR. BROWNLEE: Then proceed with your reading, Mr. Priestley?

Q MAJOR LIPSETT: Mr. Priestley, just before you start, you mentioned in connection with Leduc a feeling of unrest in reference to the oil monopoly and you indicated that the number of jobbers in Leduc, apparently indicated that there was competition?

N. F. Priestley

A Yes.

Q Now, we know that three of the jobbers in Leduc are acting on behalf of Imperial Oil, the same gasoline, do you think that that creates any real competition as far as those three jobbers are concerned or do you think that it holds out to the public any idea that there is competition when in fact none exists?

A Well, I take it there are two Imperial jobbers and one British American jobber at that point.

Q Is that right?

MR. FRAWLEY: Two Imperial jobbers and the Imperial itself, perhaps that is what you mean.

WITNESS: No, there is also the Great West Distributors. Leduc was cited, Mr. Commissioner, just becuase it was up for discussion here. I have no particular knowledge of Leduc other than what I have gathered since I saw this chart prepared by Mr. Frawley but if I gather your question aright it is to the effect of that which we were discussing before recess ---

Q Yes, as for instance, whether the two Imperial jobbers at Leduc ---

A Yes.

Q Created any real competition on the one hand or whether they alleviate the unrest by giving an appearance of competition, whether it does exist in fact?

A Yes. Well, I would say in respect to those particular three jobbers, that there is probably no price competition at Leduc other than, that is no special price competition

brought about by them but as to there being any design on anybody's part to allay any unrest by setting up subsidiary organizations, I could have no answer to that question.

Q Well, in the case of Leduc, do you see any justification for two jobbers at Leduc handling Imperial gasoline, as well as the Imperial's direct marketing organization, that is three representatives of the Imperial at that one point.

THE CHAIRMAN: From the standpoint of the public. The Imperial, of course, has three outlets.

A Yes, no special justification except that there does not seem to be any final saturation point as to the number of agencies that can cater to the public in that particular town and so long as there are men seeking work, seeking an opportunity to make a profit, there will be an effort on someone's part, possibly some Turner Valley operator, possibly some man who is starting up with no capital and with an indifferent product he is buying and mixing, probably some person who is not desirable in the petroleum industry at all, there will be somebody that will come in there to open up another agency at that point and who will say, "Here is Leduc, that only has three outlets, a place where there are so many farmers, so many thousands of gallons of gasoline sold each year, that is a good place for me. I will go in.", so someone anticipates that condition and it turns out that two jobbers of one company and one jobber of another company makes such a

decision. I cannot say as to whether that decision originated with the jobber or with the refiner. I have no knowledge of those matters but I would say that normally it would originate with the jobber, the jobber having a free field before him says, "Now here is a place where I can go and do business, I will enter."

Q Then, is not the fact, Mr. Priestley, of the three jobbers, say for the one company at Leduc, giving the appearance that there is competition which in fact may not exist and in that way to keep out this free competition that you say might go in?

A There is certainly competition as to services so long as there are three men whose families, who themselves and their families, have been earning, making a living in part or in whole out of the sale of that product. There is more active solicitation for business and competition in service, which is in effect a competition in price.

Q Well is it a competition in price, I see the competition in service but is it competition in price if in fact the price is fixed by one organization for the three of them?

A Well it is competition in price to the extent of the individual operator at that point is willing or unwilling to go out into the country and give the farmer who, we are coming to the question of free delivery now, who needs one, two, three or four or five barrels on particular occasions at a certain speed over a certain type of road, under certain types of conditions, if for instance the North Star man, wanting to get the good will of a particular customer, is willing to go out

with a product, - it is true at the same tank wagon price as is set by the Imperial, - but is willing to go out where the Imperial agent, the Imperial Oil agent, to cite an instance, might not desire to go out, there is price competition to that extent. It is a saving to the farmer. I would say, Mr. Commissioner and My Lord, that not only would there be a monopoly in refining but there would be such a monopoly in sales organization at such a point that the individual person operating such a station would tend to be somewhat independent, to reduce his service to the farmer if there were for instance, going through the town of Leduc, I do not know the gallonage but we will say a million gallons say and that was divided between the three major companies, 400,000, 300,000, 300,000, and those three men operating at that point were making a substantial living, that they would tend to say to Mr. Farmer when one wanted two or three or four or five barrels "How about tomorrow, will that be all right", well the farmer would say, "I would like them out this afternoon, I really need them." "Oh, well, tomorrow will be all right.", but because there are six outlets and those agents are seeking to make a living, there is a tendency to be prompt and to meet the needs and desires of the farmer or other customer more promptly than would otherwise be the case.

Q MR. FRAWLEY: The Gas Company gives excellent service and it has the whole field to itself.

A Well, Mr. Frawley, My Lord and Mr. Commissioner, that is, I think, a totally different field, a totally different

field.

Q Well, it is a public utility, I mean actually in law and in fact?

A Yes, but the Gas Company has installed equipment and the customer turns a tap and so far as receiving his gas that he wants it is an automatic process.

Q Let us go the whole distance then, your view would be that there is no field for any such public utility regulation in this Petroleum Industry?

A No, I would not go so far as to say that.

Q You see you made the statement some time ago that you thought there would be actually a detriment to the consumer if the direct organizations, the direct refinery marketing organizations had the field to themselves in Leduc or in any other place, I think you used the word "detriment", now where would the detriment be; if it became too monopolistic and if there was a tendency to let down on services ----

A Yes.

Q Would not the true function for some governmental regulation be to see that the service was kept up, what are your views about that?

A My views are that it would be impossible. The Government can only regulate to a certain point.

Q Perhaps you have said all you want to say, but we would like to get your views on the record about that, because I put it to you if there was some degree of monopoly there would have to be some corresponding degree of

government regulation, would there not?

A And I come back to my statement with which I prefaced this whole discussion of the jobber, that if the public were of one mind in respect to these matters and there was an absence of political rancour and difference of opinion and the public were all mobilized behind one idea, that of economy, that there could be a species of refinery, a type of refineries, I should say, that would be effective in reducing costs and would bring more benefit to the consumer.

Q But that is all too idealistic?

A Yes.

Q MAJOR LIPSETT: Mr. Priestley, with reference to Leduc, the case which we took or the example, your view would be, I take it, that all these outlets would have to be operated by somebody?

A That is true.

Q And that they must therefore add to the total cost of distributing the gasoline, if you have three men employed in Leduc instead of one?

A Yes.

Q And each had a capital outlay, that that must increase the cost to somebody?

A That is unfortunately true.

Q You think that that is compensated for to some extent by a somewhat better service than would be given if the whole three outlets were operated by one refinery?

A I do.

Q Supposing that the result that you anticipated took place and that the public got less service if there was only one Imperial outlet there, would not the tendency equally be to bring in an outside genuine refining competitior and give you real competition?

A I think there would be that tendency. But in considering this problem we have come to the conclusion, in discussions in our office, that there is really no limit to the ability of any person to enter an already occupied field and make an inroad into that field. For instance, if there are at a given siding in the Province of Alberta already 5 elevators, we will say,

Q Yes?

A That a sixth elevator being built will get part of the business. I have seen it. I remember a case particularly where a man sat on the drive-way of a new elevator for one whole season and there was never a waggon went over the drive-way and he was not able to stand it. But the company put in another man, a genial type, into that elevator in the second season, and he went over and chatted with other elevator men and talked to farmers as they came in and showed no resentment whatever that there were no deliveries. He waited his time until an emergency arose and he presently began to get business and since that time that company has shared the business which previously had been the prerogative of two other companies only. It seems

as though that process can go on indefinitely, just as in the grocery business, for instance.

Q THE CHAIRMAN: At an increased cost to the public. Let us take your case where 5 elevators were more than enough?

A Yes.

Q And a sixth one is built and gets his share of the business. Then the cost of the whole six immediately goes up, does it not?

A It does.

Q Somebody pays for that?

A Yes.

Q That is the public?

A With one qualification, which is an undesirable condition. That qualification is that there should be, as we say in our brief later in reference to this matter, there should be provision for maximum delivery requirements. We have seen in Southern Alberta where millions of bushels of wheat were spread out on the ground on a farmer's field, subject to the weather, because there was not elevator capacity in that locality to take care of it.

Q MR. COMMISSIONER LIPSETT: There seems to be another angle in the case of the elevators that you gave. You have very real competition from the farmers' organization?

A Yes.

Q You have also competition among the line companies themselves, to the extent that may be genuine. I assume it is quite genuine. But you take the case of this oil industry, you just stated at the beginning of your brief you could create no competition whatever as far as refining and the production end of it is concerned?

A Not at the moment.

Q That is what I mean. In that case it seems to be a little different because while because of this competition the elevators might keep the charges down and result possibly in the companies running at a loss, in the case of the oil industry that result need not necessarily follow and the increased cost is passed on to the public in general?

A Of course, it might be absorbed in a lessening of the profit on the part of the refining organization.

Q Well, when putting the case here they put it on the ground that there should be a reasonable return on the capital in any event. So in that case if there was increased cost, on that hypothesis, it would be passed on to the public?

A I hold very strong views which, perhaps, should not be expressed here in respect to some of these matters . I think we are hoping for approved planned economy and that rationalization of these industries will have to be attempted in the interest of the consumer. I hold those views very definitely. But I am being asked questions to-day about conditions which now exist where no definite plan along these lines is contemplated.

Q Of course, as far as this industry is concerned, Mr. Priestley, I am only expressing my own view but I am sure that applies to the Chairman also, we are most anxious to get every angle to enable us to help both the public and the industry in the Province?

A Yes, I believe that.

Q And any suggestion or views or help that you could give I am sure we would be both glad to get.

N. F. Priestley.

A I am sure, my Lord, and Mr. Commissioner, we are really anxious to help. It can be easily seen as Vice-President of a farmers' organization that I would be derelict in my duty if I did not attempt to give this Commission every help I could towards that end. We have definitely stated that in our submission.

Q I was just wondering if, taking the case of Leduc, for instance, is there any limit, supposing you doubled the number of jobber outlets in Leduc, what would happen?

A I would say so far as that particular point is concerned there would be no increase in price. Undoubtedly the whole industry would have to absorb that cost. Whether that cost would be absorbed by diminution of profits or by a lessening of the commission to the agent or by the agent charging more to the consumer, I cannot say. Those things are interlocking and apparently we are unable to discover just exactly what proportion is done one way or the other.

Q Thank you.

Q MR. BROWNLEE: All right, proceed, Mr. Priestley

A Again the question has been raised as to whether there are too many retail outlets in the Province. Our organization is not prepared to say that this may not be true. There probably is considerable overlapping of effort. This is a question presenting great difficulties however and it is not a new question. Some years ago it was a live issue in some of the Provinces of Canada. We believe one Province, Nova Scotia, took rather drastic action to curtail the number of distributing outlets and it is alleged that some reduction in price resulted.

The test must be the practical experience over a period of years, the extent to which it has been found desirable to maintain and vigorously enforce restrictive legislation, and whether such a policy has consistently had the effect of reducing the price of gasoline. It is suggested that it is not enough to simply say that a town like Camrose or Leduc, for instance, has too many distributing outlets. The important consideration must be how much territory does such a town serve, what is its importance as a marketing town, what is its ability to serve farmers at peak seasons when, by reason of seeding or harvesting necessities, supplies must be available in large quantities?

Q MR. BROWNLEE: I think there is a small correction. we should make there. "A town like Camrose has too many" retail outlets you say. You mean distributing outlets there?

A Yes, I am sorry.

Q Yes. Just correct that.

A Yes.

Again, in all fairness we must recognize that the overlapping of distributing facilites is not peculiar to the petroleum industry. For example, one might look at the handling facilities for our chief western product, grain. It is probably true that in a normal year there are too many country elevators at our local points and too many terminal elevators at the Pacific Coast and at the head of the Lakes, and yet we may experience a situation this year as we have in other

years of good crops when within a comparatively short time after the harvest our country and terminal elevators will be plugged. The very nature of our agricultural production in Western Canada is such that grain handling facilities must be able to cope with the problems incidental to a large crop; and in exactly the same way any policy with respect to such facilities for the distribution of petroleum products would be unwise and unsound which did not take into full consideration the essential requirement of adequate supplies in peak periods such as in May and September of each year.

As stated above we are not prepared to say that there is not an overlapping of distributive facilities. We are prepared to concede that that is a matter for careful study and regulation by the proper Department of Government. We do express the opinion however that the farmers of this Province would strenuously object to any policies which had the effect of restricting the sale of petroleum products to a few of the larger companies, thereby creating a monopoly or a quasi monopoly in such sale. We say with even more emphasis that there would be strong opposition to any policy which prevented the full development of the co-operative sale and distribution of petroleum products or which would prevent an organization such as ours from expanding its facilities for the co-operative sale of these products in districts in which it is not now represented, and in any policy which may be evolved, provision should be made for the full development of co-operative organization.

May I say in this connection, my Lord, that the co-operative movement, generally speaking, avoids

duplication of facilities. That is one of the very excellent features of the co-operative movement.

Q MR. BROWNLEE: You mean by that you do not find two co-operative stores in one village and you very seldom find two co-operative organizations competing in the same commodity in the same territory?

A Yes. In fact, under the conditions established by the co-operative section of the Department of Trade and Industry, they made a regulation at the request of the co-operatives that no co-operative store can be set up within 5 miles of an existing co-operative store without the special permission of the Department.

Q MR. COMMISSIONER LIPSETT: You differ from a jobber, Mr. Priestley, by being in reality a buying organization for your own members?

A Yes.

Q And distributing the surplus profits amongst your members?

A Yes.

Q And you buy as cheaply as you can for that purpose?

A Yes.

Q THE CHAIRMAN: Do you think that your defence of jobbers would have been so strong had you not, if I may say so with respect, misconceived your own position and thought of yourself as a jobber?

A No, my Lord.

MR. BROWNLEE: We have not misconceived our position. Where we began with this question in our brief, we said it previously, that if our organization, either separately or in conjunction with the Maple Leaf, under this contract, is regarded as a jobber, those are our views.

N. F. Priestley.

Q You have always taken the position you are not in the jobber category as an organization?

Q MR. NOLAN: I wonder if I could ask Mr. Priestley a question. Do I understand, Mr. Priestley, that this product that you buy from the Maple Leaf is distributed amongst your own members?

A Chiefly.

Q But not exclusively?

A Not exclusively, no.

Q Well, where is the line drawn. You see, Mr. Commissioner just put it to you a moment ago that you do buy from the Maple Leaf for distribution amongst your own members.

THE CHAIRMAN: That was my concept, yes. That was my understanding.

MR. NOLAN: I am asking Mr. Priestley if I may follow that up, is that right, Mr. Priestley, or do you distribute amongst those who are not members of the U. F. A. Central Co-operative Association?

A Yes. Like any other co-operative we sell to the general public as well as to our members. We try to get the members of the general public, who are farmers, to become members of our organization with a view to their continued patronage, among other things.

Q My point, Mr. Chairman, being that, perhaps, Mr. Priestley's defence of the jobber was, to some extent at least, may I say a selfish one - without being impertinent - because, perhaps, they are jobbers in the sense that its surplus is sold to these people who may not at that moment be members of your organization?

A If I may say in answer to that and the question that has been posed very frequently, and which I believe was in your mind, My Lord, we are inseparably associated with the Maple Leaf, in that they perform certain functions under the contract and we perform other functions under the contract. So that if the Maple Leaf Company is under attack as a jobber to the extent that we would have to revise our whole organization and structure for the sale of gasoline, we feel the necessity of defending the position that we, with them, have taken.

Q MR. BROWNLEE: In your defence of that position, Mr. Priestley, and in coming here before this Commission, you have expressed your own opinion that it is better for the oil industry of this Province at the present time that there should be other organizations making contact with the consumer and that that contact should not be put in the position where it is exclusively in the control of two or three large refining organizations?

A Very definitely, apart from all other considerations;

Q And that is the opinion which you hold and which you have honestly expressed to the Commission?

A Yes.

Q THE CHAIRMAN: And that might be the opinion that we will ultimately decide upon. But just in the way of exploring why a representative of a co-operative farmers' organization is defending the position of the middle man, because one had the idea that they always tried to get to the source of supply and cut out as many intervening people as possible in order to serve their own people best.

Q MR. BROWNLEE: As a co-operative organization that is, of course, your ultimate aim to get to, directly to the source of supply?

A If we were so situated that we could do so advantageously we undoubtedly would.

Q MR. COMMISSIONER LIPSETT: Does your justification of the jobber, Mr. Priestley, extend to cover the case of a jobber that is merely an instrument or a servant of the manufacturer even although he acts under another name?

A I want it to be clearly understood I am not defending the jobber as an institution. I am being asked questions as to his usefulness under present conditions but I have affirmed and I believe that he assists in preventing the development of a monopoly, and all consumers are interested in breaking a monopoly.

Q MR. FRAWLEY: Have you considered - perhaps I should ask you this - the situation at Regina where the Consumers' Co-operative Refinery broke away from the major refiners and erected a refinery of their own and now supply, I understand that is true, their whole outlets are through co-operative marketing organizations in the Province of Saskatchewan?

A I have. I was through their refinery three weeks ago.

Q And talked to Mr. Fowler about the whole business?

A Yes.

Q Do you think that his set-up is a better one than yours or not so good?

A We have debated in public on that question. I hold one set of views and he holds another. There are certain provisos and ifs in both cases. The fact is the

N. F. Priestley.

Consumers' refinery at Regina has a special field. There are several thousand customers in the very fine farming area contiguous to the City of Regina who come right to the refinery and take their delivery at the tap. They have only an investment of $224.00, although they do millions of gallons of business, into the second millions of gallons of business, that particular local group. They have one pump and an office desk.

Q This is a particular co-operative that is very close to Regina and they come in and take their own deliveries?

A Yes.

Q But they have a wide distribution to co-ops. Situated all through the Province something like yours, haven't they?

A They have on the north and east side of the refinery. They cannot compete on the west side. They cannot back up against the tank waggon price from Turner Valley.

Q No, but I am just distinguishing that operation, that is a complete refining and marketing operation, to yours, which is only a marketing organization through the instrumentality of a jobber. However, you say you think you are buying from the jobber and not entering into refining is better for your people?

A I say that is a special case. I do not want to knock the Consumer Refinery and I do not want to be quoted in that respect. I would say there might be some change in the price structure that might invalidate all their efforts and destroy all their investment. We are in a much better position than they in that respect.

Q MR. COMMISSIONER LIPSETT: Have they a regular refinery there, Mr. Priestley?

N. F. Priestley.

A They have no cracking unit. That is one of their difficulties. They have not yet accumulated the capital for a cracking unit. It is merely a skimming plant and they can only supply their farmers with a third type product and they have to buy from the Imperial and the British American their standard and ethylised grades.

Q You mentioned a very small investment. The investment you mentioned does not cover the skimming plant?

A No, I am sorry, Mr. Commissioner, you did not get my answer quite clear. The Consumers' Refinery is a wholesale refining organization set up by local groups in the Province of Saskatchewan as a source of supply for themselves and one particular local group of that number, consisting of a large number of farmers who live close to the City of Regina, does not even find it necessary to set up an office or any plant. They have merely one pump and an office desk. That is the entire extent of their capital. They buy from the refineries.

Q MR. BROWNLEE: Go ahead.

A We think in fairness to the Commission we should also point out that it is probably true that by far the greater number of local distributing agents are not engaged exclusively in the handling of fuel oil. They also engage in other businesses, for example many operate a garage and repair business in connection with the sale of fuel oils nand in many cases the latter will be only a side line. In our own organization we have deliberately endeavoured to negotiate other agencies for our various representatives, for example we made a contract with one of the Mutual Fire Insurance Companies

under which our representatives may solicit mutual fire insurance business on the usual commission basis. By curtailing the number of distributing points undoubtedly a larger volume would result at each of the remaining points but in many cases this would probably result in extra labor having to be engaged to handle that volume and it is very questionable whether any substantial saving would result, so as to have any appreciable effect upon the ultimate price to the consumer.

In stressing as I have the position of our organization as a co-operative I am sure it is not necessary to dwell at any length upon the philosophy of the co-operative movement generally. Co-operative buying and selling of commodities has long ago established itself firmly in many of the European countries, particularly in Great Britain and the Scandinavian Countries. It is now developing with phenomenal rapidity in all sections of the United States of America. It has firmly established itself in Canada in the marketing of farm produce and in my opinion it is here to stay in the purchasing of farm commodities. In fact many Governments, both in Canada and elsewhere, as a matter of policy, have enacted legislation to encourage the growth and development of such co-operative organizations.

As contrasted with so-called capitalistic enterprises the co-operative movement has the following advantages:

1. There is no large investment of capital by a few who look to the annual return in the shape of stock dividends from such investment.

N. F. Priestley.

2. The control and management of the organization is not in the hands of those who invested for the purpose of obtaining a return on their investment but is in the hands of those whose products are being marketed on the one hand or who patronize the organization as consumers on the other. The dominating influence therefore in the management of a co-operative organization is service and low cost of operation and the return to its members of as large a part of the surplus as possible through co-operative dividends.

3. Such an organization has a direct and beneficial social influence in the linking of members of a community together in the promotion of an enterprise in which they are directly interested and which they feel will yield them some direct benefit.

4. To the extent that patronage dividends can be declared from year to year from the earnings of the enterprise the members are directly bemefited. In the case of the so-called marketing organizations these patronage dividends result in a higher price for their commodities; in the case of a consumers' co-operative these dividends result in a lower cost for an essential commodity. To the extent that our organization has been able to pay patronage dividends in past years we have in fact lowered the price of fuel oil to our farmer members, even if only a fraction of a cent on the individual gallon and any patronage dividends so far paid have been paid in the face of the fact that the past four years have been the heaviest from the standpoint of organization expense.

N. F. Priestley.

I turn now to the contract between our organization and Maple Leaf Petroleum Limited which has already been the subject of some discussion before this commission. As both Mr. Halverson, Vice-President of the Company and Mr. Wallace, the Manager of the Company have already given evidence it would seem that there is little more which requires saying. I might first point out that the primary consideration of our organization is to be able to obtain adequate supplies of fuel oils of first rate quality on fair and reasonable terms and to do this we realized from the first that we would probably have to make our contract with one of the large established companies. For that reason we have not concerned ourselves primarily with the control or ownership of this Company. At the time the contract was made the Maple Leaf Petroleum Limited was operating a refinery at Coutts and a substantial part of our requirements were furnished by that refinery. The first contract was suggested by Mr. Halverson of Imperial Oil Limited although the subsequent discussion of detail and the consummation of the contract was made as a result of conversations between Mr. P. R. Naylor of Denver, Colorado and Mr. Peake, then Manager of Maple Leaf Petroleum Limited. We assumed that Imperial Oil Limited had some controlling interest in the Company. We did not concern ourselves as to the extent or nature of that control and had no official knowledge of the extent or volume of that control until Mr. Halverson dealt with the subject before this Commission. It is not contrary to any principles of the co-operative movement that supplies of any commodity should be purchased

from a large manufacturing organization providing the terms of the contract are fair and equitable and providing always that it does not involve any control over or any interference with the co-operative organization as such. Again it is a matter of common knowledge that the majority of the large farm co-operatives in the United States contract for their supplies from one or other of the large manufacturing and refining concerns in that country.

The type of contract which we have should not be regarded as either new or novel. As a matter of fact our Association obtains its supplies of binder twine through United Grain Growers Limited under a contract which basically and essentially is similar to our contract with Maple Leaf Petroleum Limited; that is, that Company operates as a jobber in the binder twine business throughout the Provinces of Manitoba, Saskatchewan and Alberta handling a very large quantity per year. In Alberta it supplies our requirements on a basis of division agreed upon from year to year having regard to the services which it performs in warehousing stocks and placing the required amount of the commodity in the hands of our respective representatives and in taking care of credit losses on the one hand, and the value of the position and sales effort of our organization on the other.

Q MR. BROWNLEE: I understand that is also true of the time you bought your binder twine from the Holland people, before you made your contract with the United Grain Growers?

A Yes, we had our contract with a jobber who had the exclusive right to distribute binder twine of the United Rope Works, Rotterdam.

N. F. Priestley.

Q Yes, all right.

A The sole effect of our petroleum contract is that a margin commonly given to jobbers in the Province is divided between two organizations, each providing a certain definite service. On the one hand Maple Leaf Petroleum Limited

(a) Retains all margin on business in the cities of Edmonton and Calgary and with respect to any particular contract which it may make with other companies or individuals in rural districts with the approval of our Association, and

(b) Retains a portion of the jobber's margin with respect to rural business to cover certain services it performs for us such as auditing, placing supplies in the hands of our representatives, assuming a portion of the credit losses, and all inventory losses.

On the other hand our organization receives a part of that margin as compensation for the sales and promotion work which our organization is in an advantageous position to perform, and for the actual cost of operating plants owned by the Association, and such part of credit and stock shortage losses as the Association must assume under the contract.

It has been brought to the attention of this Commission that a loss was sustained by Maple Leaf Petroleum Limited in its last fiscal year. We believe that loss has been satisfactorily explained by Mr. Halverson and yesterday by Mr. Wallace. It was partly accounted for by certain peculiar situations which developed in the Southern part of the Province. We wish to point out

however that in 1935 our organization practically started anew in building up its facilities for the distribution of fuel oils. We had no wholesale or distributing outlets.

I may say, my Lord, and Mr. Commissioner, since this memorandum was written it has occurred to me that this statement may not be altogether correct. Our Association did at that time have some plant.

Q MR. BROWNLEE: The retail there is a distributing outlet. It should be a distributing outlet?

A Yes, distributing outlet.

(Page 12,097 follows.)

C4
1

Including the outlets which were put at our service by the first contract with this Company we now have approximately one hundred stations in the Province of which 59 are either owned or controlled by us. This has not been accomplished without real effort. When we go into a community to establish a distributing point, notwithstanding the confidence which our organization enjoys, there is considerable organization work and expense to be undertaken. We have had the utmost co-operation from the Company and freely admit that in the assistance they have furnished us in our work since the first contract was formed they have not limited their efforts within the strict limitations of the contract but have freely rendered services to us which were not strictly contemplated by the contract.

Q MR. BROWNLEE: Now you do not mean by that that there was any understanding outside the contract, but simply that they gave a liberal interpretation to the contract?

A Quite.

Q That is they may have gone into a town with you and helped in the organization work, although under the contract it was not certainly required of them?

A Yes.

Q All right.

A It would not therefore be surprising if some loss had resulted in the first few years. We can only say that we now have our organization built to a point where we feel we can refrain for a time

from further extension and that with our organization work fairly well completed much of the effort which has been spent in the past few years will no longer be required. We confirm therefore Mr. Halverson's suggestion that the ensuing years may show a more favourable operating result.

Q MR. BROWNLEE; Now, Mr. Priestley, I think we had better pause there for a moment and face a question which was raised before adjournment and that is"why the Maple Leaf", why not make this contract direct with the Imperial, what is the advantage, if any, of having the contract with the Maple Leaf and what is your answer to that?

A Well in the first place I think we have already said, if I were to restate it, that there was no obligation on our part to have this type of contract. We did not know what was in the mind of the officers of the company when they made us this alternative offer. We approached them as has been stated with a view to a jobber contract. This alternative----

Q Now when you say "a jobber contract", you mean a contract on the basis of a jobber?

A On the basis of a jobber.

Q Yes?

A This alternative presented certain very favourable aspects which might be summed up, for instance there was no risk on our part.

Q Financial risk?

A Financial risk. We could have raised the money but it requires a lot of money to go extensively into the dis-

C4
Z

tribution of petroleum products and as we have stated in our brief; in the last few years it has not been opportune for the raising of money from the farmers. We could have borrowed money but when this alternative was placed before us we saw that that necessity would be avoided. We have-----

Q MR. BROWNLEE: Well now-----

A Pardon me?

Q Go ahead?

A We had little technical knowledge of the distribution of petroleum products and it requires a considerable technical st ff which would have to be recruited out of the petroleum industry and we would have to pay probably high salaries than we were in a position to pay.

Q Now that explains why we took the alternative form of contract?

A Yes.

Q Now was there any discussion between your organization and the Imperial, about the acquisition of the Northern Oils stations prior to the time that this contract was made?

A None whatever, either directly or indirectly.

Q So that this is a case where this particular form of contract was suggested as an alternative and after consideration you adopted it. Now what I want to know is this, since that time you have had an opportunity of revising the contract and you have always revised it with the Maple Leaf?

A Yes.

Q Have you any reasons why you prefer to revise it with the Maple Leaf instead of saying to the Imperial "give us a contract of this kind direct"?

A Yes, I think we have very definite reasons.

Q What are those reasons?

A Our maximum gallonage so far has been a little over 3 and one-third million gallons; the Imperial organization markets between 20 and 30 million gallons. They have an old and extensive organization. Our business would be a relatively small feature of their business; their officials would not tend to be so solicitous in respect to our contracts as groups of officials of----

Q When you say "their officials" you are referring probably to the officials in the Province?

A Yes, the persons with whom we would come in contact.

Q As against the head office officials?

A Yes. The officials of this company outside of the Cities of Calgary and Edmonton, have no other business than our business and therefore when we approach them we know we are going to get a full consideration of our needs.

Q Well then is there any problem with respect to the country agent, the distributing agent, that you had in mind?

A Yes, I would say that if we had dealt directly with the Imperial that we would have found it, notwithstanding the fact we have the good-will of the farmer and the co-operative idea well planted in this Province, we would have found it difficult to go into many places because the Imperial agent would already be there with his good-will established and his connection, among the farmers.

Q Now you are not expressing this view with any spirit of criticism of the Imperial but you are simply taking the view as I understand it that those in this Province who were responsible for the Imperial Oil organization might not have been quite so ready to co-operate with you in going into new places because of the fact that they have an old established agency there already?

A That is true and therefore, they would have had their difficulties with their local agents.

Q Yes?

A Which do not now exist.

Q Could you have any hope, or what hope today, if you were renewing this contract, on the basis of that form of contract, could you hope to get any better terms if you did go direct to the Imperial and not through the Maple Leaf?

A No, I do not see how we could hope to get any better terms because the marketing division of the Imperial would need to perform the functions performed by the Maple Leaf; they could not afford to give us a jobbers' price such as is being given to other jobbers in this Province and do the work for us which is now being done.

Q That is that if the contract were with the Imperial Oil, they would still have to take the risk of credit losses under this form of contract; they would have to take the risk of invisible shrinkage; they would have to take the expense of putting the products to the different points; the expense of auditing, all those expenses which the Maple Leaf undertakes and they could not do that without a charge?

C4
6

A Absolutely.

Q And that that charge would probably be commensurate with the charge which the Maple Leaf make?

A Yes.

Q And from the first place, because you did not see that you could operate cheaper by going direct to the Imperial and you did not think that the Maple Leaf adds anything to your organization costs and principally because it puts you in a better position in establishing your agenices, you have preferred to continue to deal with the Maple Leaf rather than the Imperial?

A Quite so.

MR. BROWNLEE: That is your position. Is there any question there, Mr. Frawley?

Q MR. FRAWLEY: Of course the Imperial could make an allowance for that, if, rather than give you the whole 6 cents which they ordinarily give to their jobbers, they might give you something less than that and do this extra accounting work which you point out, or charge you rent, give you something less, so that it could be reflected in arriving at the ultimate jobbers' spread?

A Yes, it could.

Q You have of course, as you point out, and I think it is worth while calling to the attention of the Commission, you have the whole Maple Leaf organization practically for the whole benefit of the U. F. A. Co-op?

A Yes.

Q You have a reported gallonage on which the Maple Leaf paid taxes, and the rest was negligible, in 1938, was 3,660,774½

gallons and you say your share of that would be what---

A 3,400 some thousand.

MR. BROWNLEE: In 1938, Mr. Frawley?

MR. FRAWLEY: 1938.

MR. BROWNLEE: 3,304,768.

MR. FRAWLEY: Yes, there is about 300 thousand they sell in their own service stations and to their one or two jobbers, which you have nothing to do with?

A Yes.

Q And the balance is your business?

A Yes.

Q And they would not have an organization of course if they only had those two jobber operations and these few service stations?

A That is true.

Q So that their whole staff, you might say, their whole overhead, except to a negligible degree, is doing work for you, for this contract?

A Well I would not say to a negligible degree. After all the service station connections in Calgary and Edmonton are of value.

Q Mr. Wallace gave me the impression he did not know very much about them and didn't pay a great deal of attention to them?

MR. BROWNLEE: There are some sales of the Maple Leaf which are not on there, the Gas and Oil Products, which pay their own taxes.

MR. FRAWLEY: Were there some purchases by Maple Leaf from the Gas and Oil Products?

MR. BROWNLEE: No, sales to.

WITNESS: Sales to the Gas and Oil Products.

MR. BROWNLEE: The evidence was that the Maple Leaf sell to the Gas and Oil Products and that they pay their own taxes and therefore their gallonage would not be included in the Maple Leaf.

MR. FRAWLEY: Oh yes, that jobber contract would not be here.

MR. BROWNLEE: No.

MR. FRAWLEY: That is quite so.

MR. BROWNLEE: And the Artic the same way.

MR. FRAWLEY: Might I just interrupt for another second, perhaps you had better finish your statement.

MR. BROWNLEE: You might go on reading then, Mr. Priestley.

Q MR. FRAWLEY: Just to clear up this question, I think I have it solved now, I suggest Mr. Priestley, that in the 3 million, the 3,660,770, that does not include what was sold to the Gas and Oil Products because the people, let me give you the total sales in Alberta, 3,720,071, and in the same Imperial column I find "Gas and Oil Products, Maple Leaf, mean what was Gas and Oil purchases from Maple Leaf, 62,002 gallons and that is all, so it would appear that in the figure of 3,660,000 that the Gas and Oil Products contract is not in there?

A Yes.

Q But in any event the figures, for your purposes it is enough to say that out of the 3,600,000 or even say 4,000,000

if you like, that the U. F. A. gallonage accounted for---

A 3,400,000.

Q 3,440,000 gallons?

A 3,440,000 gallons.

Q So you get the benefit pretty well, to a large degree, of the Maple Leaf accounting staff and supervising staff and sales staff?

A Yes.

Q But I simply put it to you, whatever the benefit you are getting from the Maple Leaf, could be reflected, could be taken care of, in a jobber spread which the Imperial might give you direct; now there may be other reasons why you prefer to deal with them; is it because you think your consumers would rather buy from some company other than the Imperial?

A Not necessarily. We made tests of that very definitely when going into the Peace River last year, where we established 7 new stations and we told them frankly it was the Imperial Oil product and we had no contrary reaction.

Q That is very comforting to know that.

MR. BROWNLEE: Then it gets down to this, that you feel that you have as good a contract through the Maple Leaf as you could get from the Imperial direct and you feel that there are certain definite advantages with respect to your agencies and the development of your agencies in that form of contract, which you might not get if you made it direct with the Imperial?

A Quite so.

Q Unless you went on a different basis entirely, and so far

you have not felt like taking the financial risk?

A Quite so.

Q MAJOR LIPSETT: Is it not part of the question, Mr. Priestley, whether you could get services that are worth to you 2½ cents a gallon, that is the difference between the 3½ cents disco nt that you get and the 6 cents that presumably can be gotten direct from Imperial, in other words are they supplying you with services worth that difference, that 2½ cents?

A Well we have no means of knowing other than they compute a loss of 31 thousand odd last year in giving us those services, that is I understand that the company receives its products at a definite price and in the course of their operations last year they sustained that loss; now we are less equipped than they, in that we have not, as I have already stated, we have not the staff at our command to do that kind of work at the moment; we would have to build such a staff and it is a question of whether, in view of the fact that they could not operate without a loss, whether we ourselves would not face a greater loss, because we would start with a new and untried staff. Is that all, Mr. Commissioner?

Q You say more or less then that the services which you get from the Imperial would probably be worth the 2½ cents a gallon?

A I have no reason to know that their marketing division could operate more efficiently than the Maple Leaf is doing. I can only assume that that is a fair margin for the services which they perform, especially in view of the fact

that it is expected that this year, having effected certain economies, that these red figures will be wiped out.

Q MR. BROWNLEE: In any event then, if they do make some profit in handling that section of the business on that 2½ cents, you have preferred that that should continue rather than you should take that extra financial risk and do it yourself?

A That is so.

Q Even if you had a wider margin of 5 or 6 cents?

A Yes.

THE CHAIRMAN: I take it it was not wholly a matter of choice, that the alternative would be to put up the capital expenditure that under the circumstances you were not prepared to do?

MR. BROWNLEE: Exactly.

WITNESS: Yes.

THE CHAIRMAN: Which I think is quite material.

MR. BROWNLEE: Yes.

THE CHAIRMAN: You say "we may not make all the profit we could if we had unlimited money to put into capital expenditures but as we have not we think this is the best contract open to us under our circumstances"?

WITNESS: That is it.

MR. BROWNLEE: That sums it up correctly.

WITNESS: I may say----

Q MR. BROWNLEE: All right, will you finish?

Q MAJOR LIPSETT: Just before you go on, I am sorry to interrupt you again, but if you go back to page

19, Mr. Priestley, for a moment, you instance the contract with the Maple Leaf, Limited, as on a similar basis to the binder twine business with the United Grain Growers?

A Yes.

Q Is not the United Grain Growers organization something like your own organization, that is working primarily for the benefit of the farmer members?

A That is true, it was created by the organized farmers in the early days of our organization.

Q Well would its surplus profits go back to its members, its farmer members, in the same way as your surplus profits go back to your farmer members?

A No, it does not distribute it back as we do. It is distributed back in dividends. It is owned by some 36,000 shareholders, farmer shareholders, and it is on a share capital basis and not on a co-operative basis.

Q I was just wondering whether it was really, in reality in the same position as the Maple Leaf or if it was more in the position of your organization, but it is in fact a company?

A It is a company.

Q With 36,000 shareholders who happen to be farmers?

A Yes.

Q MR. BROWNLEE: And any profits are distributed on a straight dividend basis, 4% or 5% and not in the way of patronage dividends?

Q MAJOR LIPSETT: Not returned in the form of patronage dividends?

A They have the power to declare patronage dividends but so

far they have not deemed it wise to do so.

Q MR. BROWNLEE: You reached the bottom of page 21, at the bottom of page 21.

THE CHAIRMAN: Starting with "With respect to financial statements".

A With respect to financial statements we have been at a loss to know how we can best serve the Commission. In the first place as we have previously pointed out we handle many other commodities besides fuel oils and we assume the Commission is not concerned with the revenue we have obtained on the one hand or expense on the other with respect to those other commodities. Our business is not large enough to warrant us dividing the same into departments and we have not put fuel oils in a special department so as to segregate our operating costs and expenses according to commodities. It would be impossible for us at this time to say for example what proportion of the rentals of our offices at Calgary and Edmonton should be charged to petroleum products and neither can we say What proportion of our salaries and travelling expenses should be charged to that commodity. For example at the present time we are preparing for the binder twine season which will be upon us in another month. The officers of both our Calgary and Edmonton staff as well as our field men are now devoting a much greater proportion of their time to this commodity. It will be apparent therefore how difficult it would be for us to apportion their salaries to any one commodity.

We can only say that in the last fiscal period which on account of a change previously

made by our Board only covered a period of seven months, our total revenue from commissions was $44,288.22, that is commissions on petroleum products after paying the agents' commission.

Q MR. BROWNLEE: That is your net commission after paying the agents' commission?

A Yes, I perhaps should read that again and make it correct. Our total revenue on petroleum products after paying agents' Commissions was $44,288.22. Out of this we distributed patronage dividends to the extent of $15,104.21.

MR. BROWNLEE: That is not that year?

A In the seven months' period.

The remaining sum is included with the net revenue after payment of dividends from other commodities and is used to pay operating expenses and to set up such commerical reserve as we may think proper and advantageous. We can only repeat that we are anxious to co-operate with the Commission in every way and if there are any figures dealing with our fuel oil business which the Commission feels would be of any value to them we would be glad to co-operate with the Counsel and Auditor of the Commission in the preparation of such figures.

Respectfully submitted, for the U. F. A. Central Co-operative Association, Limited.

Q MR. BROWNLEE: Now Mr. Priestley, there are two questions that we suggest you might, with respect to which it was suggested you might express an opinion, we will take first the question of free deliveries in the country districts, you heard the discussion

yesterday and have you anything that you wish to say to the Commission with respect to that question of free deliveries?

A Last night, in view of the discussion of yesterday, and the somewhat unwelcome publicity which resulted, we took this matter into consideration and if you take the Leduc situation which has been so frequently discussed as a case in point, prior to yesterday's new prices, I have not had an opportunity of seeing the tank waggon price published as of yesterday, but prior to that time, the price on Maple Leaf gasoline delivered to the farmer on his farm at Leduc was 19.6 cents plus tax; the price to the service station operator in Leduc was 18 cents, 18.6 cents plus tax. The Oil dealer has 2 cents gross commission on the business to the farmer and 1 cent gross commission on the dealer sale and it is our conviction that the price to the motoring public, being based on the dealer's cost, they do not bear any portion of the farmer delivery expense which in fact is pooled among all farmers buying at the Leduc station at tank waggon prices.

(Go to number 12,112)

N. F. Priestley

Q So that your viewpoint is the interpretation that has been placed on yesterday's evidence in the press that the general motoring public is bearing the cost of the free delivery service to the farmer in rural districts, is not correct?

A That is not correct.

Q And for the greater part, based on those figures you have given us, the cost of that delivery service is carried by the farmer himself in the price which he pays but it is pooled among the farmers who are served by the agent doing the free delivery.

MR. FRAWLEY: So that the Commission will know what Mr. Priestley is referring to. You are referring to yesterday's Albertan?

A Yesterday's Herald.

Q To yesterday's Herald, and particularly the headlines. "Free Delivery to Farms Boosts Petroleum Costs, says Maple Leaf Officer. Barrels on loan said also to be Cause Increase. Public Pays." And perhaps just the first paragraph.

MR. BROWNLEE: Just the heading.

MR. FRAWLEY: "If free delivery of petroleum products to Alberta farmers in Alberta were discontinued by Government regulations or by agreement, the result would be beneficial to the oil industry and the saving might be reflected in the price of oil products to the public."

Q MR. BROWNLEE: Now, Mr. Priestley, you have told me that the effect of the price is to pool the delivery costs among farmers in a certain area. You mean by that

N. F. Priestley

that a farmer some distance from Leduc pays the same cost as the farmer nearby?

A Yes.

Q From a co-operative standpoint, do you consider that that is fair or unfair or desirable?

A I think it is desirable in an attempt to build a co-operative community. I believe the farmer should not be unduly penalized, although the economic facts under our system are against the idea, but I do not believe he should be unduly penalized because he lives 10 miles out of town, whereas another farmer lives in a quarter-section adjacent to the town.

Q Now there was also a discussion yesterday and it has been before this Commission, I understand, as to what the effect on the price structure is of the barrel service, and I understand that it has been suggested that it is a nuisance and a great expense and that the barrels are used for all sorts of purposes rather than for oil, and that generally it is a charge upon the industry and probably an important factor in the price structure. Now, as representing your organization, would you say to the Commission what your own views are with respect to that barrel service; just how you feel about it?

A I would say that the practice of loaning barrels to farmers grew up in the early stages of the industry in the province and became an accepted practice.

Q Arising from what purpose, competition?

A From competition, yes. The desire of the companies in the field to give the maximum service to the farmers and it is

to be remembered that they have a buying power that is far greater than that of the individual farmer. I recall, for instance, my father paid $11.00 for steel barrels years ago, and whilst the prices are now down from $8.35 to $8.00, somewhere in there, it is still a substantial investment for a farmer who needs 5 to 10 barrels for his operations. In view of the fact that farm product prices have been very low for many years, and farmers have found it difficult to get their essential equipment in shape, it seems to me that this is an inopportune time to suggest the withdrawal of this service. It has been abused, undoubtedly People have used barrels for other purposes as was suggested by the Chairman of the Commission yesterday. They have undoubtedly used the barrels of certain companies to fetch the product from Montana and Turner Valley, and they have had them filled with the product of other companies. There have been cases where men have not been scrupulously honest in respect of these matters. I think, however, the average farmer feels obligated to the company whose barrels he has and does not like the idea of using their barrels for other purposes. We heard from the Maple Leaf yesterday that the cost was fractional, a small fraction of a cent per gallon. And from the evidence given by Mr. Halverson, whose estimate was rather higher, I would say we can only conclude it is not really a great charge against the industry.

Q Mr. Halverson's evidence, I believe, as I read it, was his company had some 94,680 barrels?

A Yes.

Q And if you took those barrels at the maximum price of $8.35

N. F. Priestley

it does mean a high capital investment, probably $700,000.00 or so?

A Yes.

Q But when this is spread over 12 or 15 years and compared with gallonage which is well over twenty millions, it only works out to a fraction of a cent per gallon?

A That is correct.

Q That is your view?

A Yes.

THE CHAIRMAN: What was Mr. Miller's figure?

MR. HARVIE: One-quarter of a cent approximatel

THE CHAIRMAN: Yes.

MR. COMMISSIONER LIPSETT: Are you putting that on the basis that they pay out this $700,000,00 and then that was amortized over that period and finished with. Would there not have to be another $700,000.00 spent at the end of 10 years?

MR. BROWNLEE: Even if that is the case, that is still amortized over a period of 10 or 15 years and it might go on revolving around from period to period.

MR. COMMISSIONER LIPSETT: They would only get their $700,000.00 amortized as long as they were in business. But they would still have them at the end of the business.

MR. BROWNLEE: I do not think so. They might wind up at the conclusion of one of these periods and have written off the investment. Mr. Halverson said in his evidence they have written off all of theirs with the exception of about $16,000.00.

MR. HARVIE: But they have re-invested it.

MR. BROWNLEE: Yes.

N. F. Priestley

Q Now is it putting your position fairly, and you want to be fair to the Commission, you say in the first place this arose through the competitive factors of the companies?

A Yes.

Q And secondly it has become an established fact since that time?

A Yes.

Q And thirdly you are prepared to state it is a cost?

A Yes.

Q And probably from the standpoint of the companies is somewhat of a nuisance?

A True.

Q You think, however, that the net cost per year upon the companies is not high. But primarily speaking on behalf of the farmers' organization on account of the economic conditions today and the way they have affected the farmer, you feel that under present conditions it would not be advisable to make any change?

A I do.

Q Because of the additional burden that you would put upon the farmer under these distressing conditions in having to provide for additional equipment of his own?

A Yes.

Q Which, in many cases, he could not do?

A I would not say that the practice should not be discontinued at some time. But I think now is not the time.

Q I think that is all I have in mind?

Q MR. FRAWLEY: Mr. Priestley, I just have a question, would not the farmer do better if he came in and took delivery of his own petroleum products, providing always,

N. F. Priestley

of course, that he got some consideration, namely, 1¢ off his present price?

A Well, some farmers would undoubtedly. That is why there is a tendency for local agents to bargain with the farmers who are nearby.

Q I was going to ask you, in your own experience, in your own company some of your agents I suppose you know perfectly well do give farmers something off the posted tank wagon price if they will take their own delivery?

A That is not a common practive with us. If there are any instances, they are negligible.

Q There are lots of farmers who have trucks, and lots perhaps who have not?

A That is true.

Q But they have some delivery facilities of some kind?

A Yes.

Q They come into their trading point and they might just as well take home a load of gasoline as not, but knowing they get delivery free, they simply go on home and make the oil company come out with the petroleum product. Is not that what is going on?

A It is not entirely just the picture of the situation. The average farmer, or member of the farm family, does not drive to town with a truck. They drive a car. And a 400-pound barrel of gasoline is not a suitable thing to bring back in a car.

Q No?

A Their car is usually handier than the truck. It is easier to start and cheaper to operate, and there are other

N. F. Priestley

members of the family who go in with him for various other purposes.

Q But they do come in with their truck or with something. They bring their truck in from time to time?

A Yes.

Q And could they not so organize their farm economy that they could take delivery when they are in of their petroleum products, and I am only saying with the advantage of a lessened price?

A They can, but it is regretably true, like a lot of other people, they are improvident. They do not think ahead. We have tried to get them to take delivery in quantities. We say "Why have your local agent run out with one barrel or two barrels? Why not order six barrels at a time," and so on.

Q Do you think it would educate them if the Commission recommended that the farmer be put on a cash..... Well no, not cash, but a carry-home basis? Do not have it on a cash basis. But a carry-home basis, and have it reflected in the price by say 1¢ or whatever it might be?

A I have views in respect to that. // I am trying to build a co-operative community and I do not like the idea of having farmer Smith niggling as against farmer Jones as to whether he is a mile nearer town or not, and whether he should not pay for service at such and such a price. But to eliminate the policy of free delivery, which is an element of pooling, would mean that the farmer in the remoter parts of the area would have to make a bargain with the commercial trucker who might be placed in a

N. F. Priestley

somewhat independent position in respect to the farmer, whereas the agent now deals with all farmers whether near or far, and provides delivery service and every farmer has the advantage of it.

Q I do not want to get into a discussion of the philosophies behind that. That is running right up against the economic theory of rent, is it not?

A Yes, I recognize that.

Q The man who is nearer the market pays more?

A Yes, and his land is of less value if he is further away and his taxes are lower.

Q MR. NOLAN: I was just going to ask you something, you said something about weight. Mr. Frawley has been saying that the farmer has his truck and he might get his oil and take his gasoline out to the farm. Now you mentioned the weight. I can tell you that the weight of a drum is 86 pounds, and when it is filled with 45 gallons of gasoline, there is 360 more pounds, giving a total weight of 446 pounds?

A Yes.

Q That is a considerable weight for a farmer to handle with his truck, going home with his wife and family on a Saturday night, is it not?

A It is.

THE CHAIRMAN: Or even without them?

MR. NOLAN: Yes.

MR. FRAWLEY: Especially if it is after 10:00 o'clock.

Q MR. NOLAN: Qhite seriously, there is

some difficulty in the physical handling of these drums, filled as they are with gasoline of that weight?

A Yes, and quite often the farmer is quite an elderly man and is not in a position to wrestle with a 360-pound drum, whereas the agent may be a man suitable for that purpose, dressed for the purpose, and equipped for the purpose.

MR. FRAWLEY: Well, dollars and cents.

Q THE CHAIRMAN: Mr. Priestley, have you any general views that you would like to put forward that you think would advantage this industry or your people, in connection with the operation of the industry. Have you anything to suggest by way of governmental enactment or regulation that you think this Commission should recommend? Or any statutues or regulations do you think should be withdrawn?

MR. BROWNLEE: I was going to suggest that probably that owing to the fact that I have not been attending and did not know just the nature of these presentations, that we did not spend a great deal of time in considering them. But I am sure Mr. Priestley will be only too glad to direct his attention to that and possibly supply you later on with.....

THE CHAIRMAN: Mr. Priestley's evidence has been interesting. He is very representative of an important class in this country and I would be glad to have his considered suggestions if he has any.

MR. BROWNLEE: We would have been very glad to have prepared that for you today, but it did not occur to us.

N. F. Priestley

THE CHAIRMAN: It is a question I have put to all the major corporations and people who I thought had sufficient interest and sufficient ability to sit down and think out well such suggestions. We may accept them or we may not, but it is a great advantage to us to have them.

MR. BROWNLEE: If Mr. Priestley wishes to answer now and make any suggestions, I would be the last to interfere with him doing it. But it did occur to me it is getting near to 1:00 o'clock.....

A My Lord, I would rather not answer that now. For two reasons. One is, it is a difficult matter and one that requires study and consideration. The other is that I am after all a representative, and in respect of all these major things our organization has committees to do that kind of work. I would not feel entitled as an officer of the organization to express a view on a matter so important without a conference with my associates on the executive.

Q MR. BROWNLEE: You would be willing to sit down with your executive and give thought to that and present a memorandum to the Commission, and possibly at a later date if you wish to have him recalled, deal specifically with that phase?

A As far as I am personally concerned, yes.

THE CHAIRMAN: We think a memorandum - and we have so stated before - a memorandum without the attendance of a person who is wholly familiar with its contents is of little value, because there may be matters in it that one wishes to examine upon and find out. That cannot be done, of course, with a bare document.

N. F. Priestley

A That is true.

Q But we think that representing as you do a great and important class in this country and having a great interest in this subject, I assume, that you might be well asked even as we have asked the major companies and as we have asked in fact everybody that we thought would be helpful, to offer us any suggestions you think would advantage either the consumers or the producers or the manufactures, as the case may be. We are very seriously trying to make recommendations that will be sound. We can only do so if those who have the knowledge give us the benefit of their views?

A Yes.

Q We will be adjourning when we finish the marketing matter, and we will be resuming later. When do you suppose that - if you are disposed to make such a presentation to us - that you could conveniently do so, Mr. Priestley?

MR. BROWNLEE: It might be, Mr. Priestley, in the nature of your organization that the parent body, the parent Board of the United Farmers of Alberta would prefer to come before this Commission rather than just the marketing section, and speak on behalf of the farmer and make their representations at that time. So that I am sure Mr. Priestley would be glad to take back to the Board your suggestion, and possibly when you re-convene later on in the Fall, the U. F. A. parent body, speaking for the farmers, would come in and direct their attention more to that angle?

A I may say we have seriously considered the advisability of doing that. But in my attendance at the Commission and in the reading of the evidence, such as I have read, it did not

N. F. Priestley

emerge that you were seeking opinions particularly on this subject. I personally felt that perhaps it should be deferred until we had got your points of view and we appeared before you.

THE CHAIRMAN: You see there is practically no question that is not put to us in our general Commission that is not inextricably wound up with the subject of oil, from where it is down in the earth until it reaches the consumer. Whatever may be done about any recommendation of ours, we at least want to make those that we hope will be helpful. So we will be glad to hear from you and Mr. Brownlee can let us know, through Mr. Frawley, what you propose to do about that.

MR. BROWNLEE: I shall be very glad to do it, My Lord.

THE CHAIRMAN: Thank you very much, Mr. Priestle

(At this stage the Hearing was adjourned to open 9:00 a. m., 26th of July, 1939)

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 26th, 1939

VOLUME 108

I N D E X

VOLUME 108 - July 26th, 1939 Page

WITNESS:

E X H I B I T S

(S. J. Helman, Esq. K. C., appeared for the Great West Distributors, Limited).

MR. FRAWLEY: We have the Great West Distributors, Limited, this morning, Mr. Chairman. Mr. Helman is acting for the Company. I will call Mr. Jennett.

BEVERLEY I. JENNETT, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Jennett, you are a member of the Institute of Chartered Accountants for the Province of Alberta?

A I am.

Q And you are the Manager at Calgary for the firm of Peat, Marwick and Mitchell?

A I am resident partner.

Q You, on our instructions, made an analysis of the operations of the Great West Distributors?

A Yes.

THE CHAIRMAN: Give me the name of that company again.

MR. FRAWLEY: Peat, Marwick, Mitchell and Company it really is and I might say, Mr. Chairman, that it appears on the letter head of this company that they have offices in Montreal, Toronto, Winnipeg, Calgary, Vancouver, New York, Havana, London, Paris, Brussels, Berlin, Buenos Aires, Calcutta, Cairo, Johannesburg.

Q MR. FRAWLEY: Mr. Jennett, you did make an analysis of the operations of Great West Distributors on our instructions, and for what period?

A For three years ended December 31, 1937.

Q For three years ended December 31st, 1937?

A Yes.

Q And when did you do this work?

A We commenced late in November and completed it in the client's office in the Great West Distributors office, towards the end of December.

Q So that it was not possible for you to do anything but the year 1937?

A Yes, December 31, 1937 was the last operating results available.

Q Now the only other thing, to bring the matter up-to-date, is, who are the auditors for the company?

A I understand that Price Waterhouse has since taken off a statement, Price, Waterhouse and Company.

Q Yes, have taken off a statement for what period, do you know?

A For the period ended February 28th, 1939.

Q That is what you understand?

A That is what I understand.

Q And that of course would not be a statement of the elaborate nature of the statement you have prepared, the memorandum you have prepared?

A No.

MR. FRAWLEY: Well presumably, Mr. Chairman, when Mr. McKenzie is on the stand we will file the statement taken off recently by Price, Waterhouse; now is this a statement which you have prepared for the Commission?

A Yes.

MR. FRAWLEY: I offer this as an Exhibit, Mr. Chairman.

WITNESS: That is a signed copy, Mr. Frawley.

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "528")

Q MR. FRAWLEY: This also is a signed copy?

A That is the original.

Q Oh, this is the original?

A Yes.

MR. FRAWLEY: Then I think we had better file this instead of the one marked as the Exhibit. Now, Mr. Chairman, we have a limited number of these signed and original copies but I will give you a signed copy, leaving the original with Mr. Cutler and Mr. Helman has a copy and Mr. Jennett has one which he will use.

Q MR. FRAWLEY: Now, Mr. Jennett, I suggest, the report, Mr. Chairman, consists of 15 pages, the report proper and then there follows a number of Exhibits, quite a number of them; I suggest that Mr. Jennett read his report and make only such references to the Exhibits as would appear to be necessary to complete the presentation of the company's operations?

A This is addressed to F. G. Cottle, Esq., C. A.

PEAT, MARWICK, MITCHELL & CO.

Chartered Accountants

CANADA LIFE BUILDING
CALGARY
January 5, 1939.

F. G. Cottle, Esq., C. A.,

Accountant to the

Royal Commission on the Petroleum Industry,

Calgary, Alberta.

Sir:

In accordance with your instructions, we have made an examination of the records of Great West Distributors, Limited for the purpose of obtaining certain data relating to Section "B" of the Programme of Inquiry relating to Marketing by Wholesalers, including jobbers, of Motor Fuels Refined in Alberta, of Motor Fuels Imported into Alberta, and of Lubricants and Greases Imported into Alberta. We now submit our report thereon, together with statements, prepared from the records without confirmation, as enumerated in the index prefixed hereto.

Organization and General Nature of Operations

Great West Distributors, Limited, is a private company, incorporated under the Alberta Companies Act. The outstanding shares at December 31, 1937, were held as follows:

Geo. A. MacKenzie, President and Managing Director	7,998	shares
William S. McKenzie, Manager of the Winnipeg Branch	2,001	"
Miss L. Halloran, Secretary-Treasurer	1	"
	10,000	

The Company's operations comprise principally the wholesale distribution of motor fuels, lubricants and greases, pruchased with few exceptions direct from the refiners thereof, and in a relatively small degree of tires, tubes, batteries and other automobile accessories.

Officers of the Company have advised us that no motor fuels have been imported by it since commencement of business in April, 1931, and our review of the accounts for the three years ended December 31, 1937, did not disclose any importations of motor fuels during that period. Lubricating oils, with the exception of a minor amount of finer oils, are imported, and greases and miscellaneous oils are purchased from Canadian distributors or manufacturers as referred to in later paragraphs and statements in this report.

The Company operates five central bulk plants located as follows:

	Calgary,	Alberta
	Edmonton,	Alberta
	Lethbridge,	Alberta
	Saskatoon,	Sask.
and	Winnipeg,	Man.

The operations of the Winnipeg plant have been restricted principally to the packing and distribution of oils and greases. Sales from plants and agencies outside of the Province of Alberta during the three years ended December 31, 1937 amounted to only 11.3% of the total sales of the Company.

The accounts of the Company have been maintained in a manner which permits of the determination of gross profits earned in the three provinces as shown in the ap-

pended Profit and Loss Account, but numerous items of expenses, charges and other income are not readily apportionable and therefore the results of operations have not been segregated as to provinces beyond the totals and percentages for gross profits.

Distribution is made from the three Alberta bulk plants by motor trucks, with minor exceptions, to approximately 165 consignment agencies throughout Alberta. In addition, sales are made direct from the three bulk plants to garages and dealers. The amount of sales through channels other than consignment agencies is not readily available but an examination of the sales invoices for the months of August, 1937 and August, 1938, did not disclose the volume to be material. All agencies handle the products of the Company on a consignment basis and account for sales on the bases of tank wagon prices for motor fuels and printed list prices for lubricating oils, greases and miscellaneous oils, after deducting commissions at rates fixed by formal contracts with the agents. Commission rates provided for on a standard contract form are as follows:

Product and Class of Sale	Commission Rates
Gasoline, Refined Oil and Distillate:	
Sales to Farmers	2¢ per gal.
Sales to Dealers and Others at the Agency Town	1¢ "
Sales to Dealers and Others at Adjacent Towns - delivery at Agent's expense	2¢ "
Sales to Dealers and Others at Adjacent Towns - delivery at other than agent's expense	1¢ "
Fuel Oil to all Buyers	1¢ "
Red Head, Reliance and Miscellaneous Oils	5¢ "
All other Lubricants in bbls.or cases	5¢ "
Greases and Belt Dressing	1¢ per lb.
Greases sold by bbl.	$1.00 per bbl.
Greases sold by Half-bbl.	.75¢ per half-bbl.

The foregoing rates of commission can be described as only applying generally in agency contracts, as variations occur when circumstances warrant. Sales to Dealers and Others are reported to the Company at a reduction of 1¢ under posted tank wagon prices, where a commission of only 1¢ per gallon is allowed.

The company has not on file sufficient information to permit of a listing of all agents who maintain service station pumps on their permises and consequently we are not in a position to indicate the extent to which the Company's products find outlet direct to consumers on a retail basis. However, it was observed from agency Sales and Stock Reports that the agents charge themselves at tank wagon prices for retail sales except in instances of sales made to Head Office customers such as elevator companies, truckers, inspectors and salesmen, etc. in which instances the invoices are put through by Head Office at contract prices. From enquiries and tests made of sales invoices we have inferred that the Company has consistently realized posted tank wagon prices for the greater part of its motor fuels and list prices for oils and greases sold through agencies, less the commissions set forth on the page immediately preceding.

Property and lease arrangements with agents vary greatly in nature. In addition to the properties owned by the Company as referred to later herein, the Company has now approximately sixteen units under lease which are sublet to agents. In numerous other instances the Company has equipment installed on agents' properties, for which no rental is charged.

Capital Invested in the Business

A statement of the average capital invested in the business during the three years ended December 31, 1937 prepared, without confirmation by us, from the Company's annual financial statements, is submitted as Exhibit "A-1" appended hereto. A condensed summary of Exhibit "A-1" is tabulated hereunder:

Now I will read the figures commencing with the year 1935, and for 1936 and 1937.

		Year ended December 31		
		1935	1936	1937
Net Current Assets	$	27,160.87	36,758.27	52,998.94
Investment in Fixed Assets	$	126,034.50	160,729.56	171,652.45
A Gross Total		153,195.37	197,487.83	224,651.39
Deduct Reserves for Depreciation		28,024.49	52,193.36	72,404.96
Net Tangible Assets at End of each Year		125,170.88	145,294.47	152,246.43
Average Invested Capital for Year		109,396.25	135,232.67	148,770.45
Net Income, as adjusted, for each of the Three Years	$	20,891.87	16,711.29	28,684.79
Percentage of Net Income to Average Invested Capital		19.097%	12.357%	19.281%

For the purposes of the above statement an amount of $10,000.00 set up on the books as the valuation of contracts and agencies in consideration for which the capital stock of a par value of $10,000.00 was issued, has been eliminated. Loans aggregating $15,000.00 made by Mr. Geo. A. MacKenzie for working capital during the early operations of the Company have since been partly repaid and the net investment of $152,246.43 at December 31, 1937, was represented by:

Earned Surplus, as per Books	$ 136,220.16
Drum Redeemable Account, added to Profits	9,600.78
Making a total of	145,820.94
Loans by Mr. Geo. A. MacKenzie and companies wholly owned by him	6,425.49
Making a total of	$ 152,246.43

No dividends have been paid from Earned Surplus since the inception of the Company.

Totals of the various classifications of fixed asset accounts at the respective year-ends are set forth in Exhibit "A-1", and the following summary reflects the amount of capital invested in properties operated by agents at December 31, 1937.

I might add that this statement is set up so as to develop in the last column the amount of investment in properties operated by agents. This statement shows three headings, the first is "Gross Book Value, December 31, 1937" and from that we deduct "Head Office, Calgary, Edmonton and Lethbridge bulk plants, and then we deduct Winnipeg and Saskatoon investments and the balance in the last column is the investment in the plant at agencies. Will it be all right if I just give the total of that, Mr. Frawley.

MR. FRAWLEY: I think so, do you think so, Mr. Chairman?

A THE CHAIRMAN: Yes.

	Gross Book Value December 31, 1937	H. O., Calgary, Edmonton and Lethbridge	Winnipeg and Saskatoon	Balance Invested in Plant at Agencies
Land	$ 4,645.97	-	-	4,645.97
Buildings	23,107.93	2,307.59	26.72	20,773.62
Trucks and Motor Cars	32,608.58	25,633.59	3,451.32	3,523.67
Plant and Equipment	48,621.96	12,427.86	2,468.70	33,725.40
Drums	58,803.70	3,698.50	12,082.99	43,022.21
Furniture and Fixtures	3,864.31	3,242.37	621.94	-
	$ 171,652.45	47,309.91	18,651.67	105,690.87

Then the net result is, book value, is $171,652.45; the Head Office, Calgary, Edmonton, and Lethbridge, the total is $47,309.91; Winnipeg and Saskatoon, $18,651.67, leaving a figure of $105,690.87 invested in plant at Agencies.

Agency stations owned by Mr. Geo. A. MacKenzie personally are not included in the above summary. Rents credited to Mr. MacKenzie for such stations during the year ended December 31, 1937, are as follows:

Westlock	$ 1,202.16
Fairview Service Station, Edmonton	780.00
Mount Pleasant Service Station, Edmonton	780.00
Bulk Plant, Edmonton	3,223.99
Bulk Plant, Saskatoon,	-

the bulk plant Saskatoon is owned by Mr. MacKenzie but no rent is charged.

Making a total of $ 5,986.15

Details of provision for depreciation for the three years ended December 31, 1937, are set forth at the foot of Exhibit "B-2" appended hereto. The amounts charged for the year ended December 31, 1937, together with the

rates adopted for the three years are summarized as to account classifications on the following page.

And the first heading will be the amount of the charge for 1937 and then follows the annual rate.

Depreciation for the Year ended December 31, 1937.

	Charge for 1937		Annual Rate
Buildings	$ 1,155.38	Being at the rate of	5%
Plant and Equipment	4,883.19	" " " " "	10%
Furniture and Fixtures	386.43	" " " " "	10%
Trucks and Motor Cars	6,421.11	" " " " "	25% for 1st year and 20% thereafter
Drums	14,700.93	" " " " "	25%
Total Depreciation in 1937	27,547.04		

Depreciation of Buildings and Plant and Equipment is provided on average percentage bases without regard to the condition that certain construction has been made on leased premises. The undernoted summary shows the allocation of investments as at December 31, 1937; and the first figure read will be buildings and the second plant and equipment.

	Buildings	Plant & Equipment
Located on Company Property	$ 19,782.13	22,413.74
Located on Leased Premises	3,325.80	26,208.22
Making Totals	$ 23,107.93	48,621.96

Statements of Properties classified as above and showing locations are submitted as Exhibits "A-2" and "A-3" appended hereto.

Buildings appear from the records to be principally of light frame construction and the average depre-

ciation rate of 5% per annum may not ultimately prove excessive. A substantial proportion of the investment of $33,725.40 in Plant and Equipment at Agencies comprises underground tanks and fittings. A segregation of costs as between overhead tanks, underground tanks, pumps, etc. was not readily available and accordingly a charge for depreciation based on estimated life of the various classes of equipment was not feasible.

Trucks and Motor Cars are subject to depreciation rates of 25% per annum for the first 12 months and 20% per annum thereafter, and we observed that the several instances of sales or exchanges of motor equipment did not disclose any material profit arising from over-depreciation.

Q THE CHAIRMAN: Just a minute, you gave 25% the first year and 20% per annum thereafter, whereas on page 7 you show trucks and motor cars, 25% the first year?

A And 20% thereafter, if you will read down to that second line, the next line.

Q Oh yes, I was thinking of that third figure of 25% which follows that, but that relates to drums of course?

A Yes.

Q All right?

A Furniture and Fixtures have been subject to charges which appear to be in excess of what physical conditions warrant, but the total amount involved is practically negligible.

Drums were valued on the basis of a physical inventory as at December 31, 1934 and arbitrary second-hand prices were adopted as follows:

That is at December 31, 1934;

Galvanized Drums	$ 3.00
Lubricating Oil Drums	1.50
Half-Barrel Oil Drums	1.00
Quarter-Barrel Oil Drums	.50

At that time drums on loan to agents were treated as 66-2/3% recoverable. Since December 31, 1934, purchases and outright sales of drums were debited and credited respectively to the Drum Account and 25% of the gross ledger balance was provided as depreciation. Book inventories prepared for us from stock records as at December 31, 1937, priced on the same basis as at December 31, 1934, but with drums on loan to agents treated as 50% recoverable disclosed a value of $25,288.00 as against the net book figure of $23,967.18. From this one would infer that the charges in the appended Profit and Loss Account are not materially over-stated, but we observed from the drum stock records that losses from drums loaned and not returned are substantial and we believe that the major portion of the amounts charged as depreciation of drums actually represent drums loaned and not recovered. We understand that it is not the policy of the Company to add values of drums to invoices for products supplied in the larger types of containers.

B. I. Jennett

The Company's Balance Sheet as at December 31, 1937 included a credit of $9,600.78 described as "Drums Redeemable" with a narrative that these drums were redeemable for cash when returned. Treatment of the sales of drums in this manner would require the inclusion of the values of such drums as an addition to the inventory discussed in the preceding paragraph with the result that the depreciation charges would be over-stated. For the purpose of the appended Profit and Loss Accounts we have included the annual increases in the Drums Redeemable Accounts as Other Income under the relative years.

Profit and Loss Accounts

The Company has not maintained its accounting records in a manner to permit the preparation of operating statements which will show the profits earned on the various products individually or the results of operations for the bulk plants or agencies either in total or by products, nor are corresponding totals of quantities handled readily available. In the absence of this information we have prepared from the books and annual financial statements, without confirmation, a Condensed Profit and Loss Account for the three years ended December 31, 1937, together with percentages of certain totals to Net Sales as submitted on Exhibit "B-1" appended hereto. A summary of the main totals appearing on Exhibit "B-1" is as undernoted:

B. I. Jennett

	Year ended December 31			Percentage of Sa		
	1935	1936	1937	1935	1936	
les	$ 919,317.76	1,055,268.34	1,098,534.57	%100.00	100.00	10
st of Sales	688,116.20	803,300.64	818,258.65	74.85	76.12	7
Gross Profit	231,201.56	251,967.70	280,275.92	25.15	23.88	2
tation, Warehouse, elling and Administative Expenses	213,122.73	242,034.40	256,135.32	23.18	22.94	2
Net Profit from Operations	18,078.83	9,933.30	24,140.60	1.97	.94	
ther Income	9,483.80	11,759.70	10,018.37	1.03	1.11	
Net Income before Income Taxes	27,562.63	21,693.00	34,158.97	3.00	2.05	
ominion and Provinial Income Taxes	6,670.76	4,981.71	5,474.18	.73	.47	
Net Income	$ 20,891.87	16,711.29	28,684.79	% 2.27	1.58	

Q MR. FRAWLEY: All of the details shown in this condensed summary will be found in Exhibit "B-1"?

A Yes. There are three of them. There is "B-1" and "B-2". Well, just the two in this, "B-1" and "B-2".

Q To find out, for instance, where that other Income came from, that is all disclosed?

A Yes, that is all disclosed in the Profit and Loss Account.

Q I notice you have used the expression a couple of times in your report "Without Confirmation". That means what?

A That means we did not make detailed audit of the transaction.

Q When you found a figure in one of the books of accounts of the company, you did not go back and demand to be shown the vouchers and so on?

A No. We accepted the records as they were except in cases where we wanted to make a breakdown, and make an analysis.

Q Quite so?

A We might point out that increases in amounts of sales are not indicative of the actual increases in the volume of product handled as

B. I. Jennett

for instance the tank wagon price of Red Head Gasoline at Calgary had fallen from 21¢ in January 1935 to 18½¢ in December 1937. The general increase of approximately 20% in total sales value for 1937 over 1935 if applied to this product would mean an increase of 35.4% in the total gallons handled.

On September 2, 1937 and November 22, 1937 tank wagon prices were reduced on certain motor fuels and the Company absorbed in its 1937 operating account the resultant losses sustained on the relative products on hand on the respective dates as detailed below:

September 2, 1937:				
Ethyl Gasoline	13,499 Gals	@	1¢	$ 134.99
Red Head Gasoline	87,731 "	@	1¢	877.31
				1,012.30
November 22, 1937:				
Ethyl Gasoline	14,377 "	@	1¢	143.77
Red Head Gasoline	84,539 "	@	1½¢ (R)	1,268.09
				1,411.86
Total Inventory Losses				$ 2,424.16

("R" indicates figures in red)

The foregoing losses have been absorbed in the gross profit for the year 1937 and no segregation has been made of the amount in the accounts or for other minor price adjustments during the year 1937 or during the years 1936 and 1935 for which computations have not been made.

Dominion and Provincial Income Taxes are stated at the actual amounts paid in respect of the net income for the respective years before the adjustments summarized on the following page were made by us for the purposes of this report.

B. I. Jennett

Adjustments to Net Income

	1935	1936	1937
Net Income (R) Decreased or Increased:			
Adjustment of Charges for Bad Debts by amounts collected during the year next following	$(R)1,680.37	(R)75.01	2,012.35
Small Tools $6,283.77 written off in 1937, applied against the years in which expenditures were made	(R)1,443.90	(R)1,923.60	5,607.91
Duty paid in 1935 applicable to 1932	896.09	-	-
Refunds received in 1935 applicable to 1932, 1933 and 1934	(R)6,022.50	-	-
Sales of Drums treated on books as a Deferred Liability	2,688.23	3,626.18	1,360.87
Total Adjustments	(R)5,561.55	1,627.57	8,981.13

Expenses for the three years under review are set forth in greater detail in Exhibit "B-2" appended hereto and the following comments are submitted in connection with certain items included therein.

Commissions, Agents' Salaries and Warehouse Expenses included as combined totals under the classification of Station and Warehouse Expenses in Exhibit "B-2" comprise commissions paid to agents, and salaries and warehouse expenses for the central bulk plants and the Innisfail station which until late in 1938 was operated by the Company. For the year 1937 Warehouse Expenses amounted to $19,917.15 but the corresponding figures for the years 1936 and 1935 and totals of salaries paid to warehouse employees are not readily available to permit of a separate subclassification of these items.

During the year ended December 31, 1937, the Company charged off in its Profit and Loss Account an amount of $6,283.77 representing purchases of loose tools and small equipment which had been charged to

equipment accounts as purchased. For the purposes of the appended Profit and Loss Account we have included as charges only the expenditures made in the three years ended December 31, 1937.

Salaries of Executive Officers comprise the following monthly items:

President and General Manager	$ 1,000.00
Secretary-Treasurer	150.00
Director and Manager of Winnipeg Plant ($165.00 out of $500.00 per month reflected in Winnipeg Office Expenses)	335.00
	$ 1,485.00

Patronage Bonuses represent rebates allowed to Locals of the United Farmers of Alberta which we are advised have now been discontinued.

Although the amounts charged for bad debts show annual increases disproportionate to the increases in sales, we might point out that no reserve has been maintained against losses on the collection of accounts outstanding at balance sheet dates. We are not inclined to view the average annual net charge of $7,202.23 or 7/10 of 1% of Sales for the three years under review as excessive. A cursory review of the numerous accounts written off indicates that losses have been assumed for the greater part in accounts with agents.

Reference has been made on page "B" of this report to the charges for depreciation where it was pointed out that the provision in respect of drums represented to a large degree losses on drums loaned agents and customers without charge and not recovered.

B. I. Jennett

Average Costs, Selling Prices and Margins

As previously intimated herein, the Company has not maintained an account classification of its purchases and sales by main products either in total or by central bulk stations and agencies, nor is this information maintained in money values in subsidiary records or analyses although summaries by quantities only of products shipped to and sold by agencies could be prepared from stock card records maintained for the purpose of accounting for products supplied on a consignment basis. Accordingly, it was not possible for us, without the expenditure of an undue amount of time, to prepare statements showing either the gross profit realized on main products or average costs, average selling prices or margins realized on any individual product handled. In the absence of this information in readily available from we prepared statements of costs, bulk selling prices and margins for the main products handled at 15 points during the months of August, 1937 and August, 1938 as submitted in Exhibits "C-1 to 9" appended hereto, and more fully described in the index prefixed hereto. Certain explanations are made by notes on the statements and the remarks contained in the four paragraphs next following apply generally to the compilation of the statements.

Posted tank wagon prices included in the foregoing statements have been adopted from the price lists of Imperial Oil Limited issued under dates of June 13, 1936 and June 21, 1938 respectively and furnished to us by yourself. A comparison of the posted tank wagon prices

with the bulk selling prices indicates that the posted prices had been maintained with a few minor exceptions in which only fractional differences existed.

Bulk selling prices reflected on the statements have been taken from sales invoices of the respective agencies, which invoices were inspected by us for the months of August, 1937 and August, 1938, and such prices relate only to sales in other than retail lots, principally to farmer trade. Retail sales made for cash or on charge accounts carried by the agent at his risk are reported to the Company at posted tank wagon prices, the agent presumably receiving any excess of retail selling prices over the posted tank wagon prices plus the commission provided for in his contract with the Company. Retail sales for which the customers' accounts are carried by Head Office are reported as to quantities only and the Company receives the full selling price less the usual commission payable to the agent. Lubricating Oils and Greases are sold on the basis of list prices which are uniform throughout the Province, and such list prices are subject to the commissions fixed by contracts with the agents.

Truck haulage costs shown on the statements have been adopted from the Company's list of rates allowed to independent truckers. The rates were confirmed by an inspection of the actual payments made to truckers during the months of August, 1937 and August, 1938. Officials of the Company have advised us that the truck haulage rates are fixed at a discount of 10% on railway tank car rates.

B. I. Jennett

Laid-down Cost comprises invoice cost at refineries plus trucking charges to points of distribution for motor fuels and freight, duty, sales tax etc. for imported products. A statement showing the names of suppliers, point of shipment and prices paid for products prepared from invoices inspected by us for the months of August, 1937 and August, 1938 is submitted on Exhibits "D-1" and "D-2" appended hereto.

An inspection was made of invoices for sales to other smaller companies controlled by Mr. G. A. MacKenzie and we found that the prices charged included only nominal advances over laid-down cost to the Company and that the volume as a whole has no material effect on the results of operations of the Company.

An analysis of the purchases of "taxable" products by quantities prepared from the Company's monthly gasoline tax returns for the year ended December 31, 1937 is as follows:
This is given just to indicate volume.

	Gallons
Ethyl Gasoline	141,683
Red Head Gasoline	1,249,546
Powerite Gasoline	813,999
Purple Distillate	982,893
Naphtha	897,601
Tractor Kerosene	318,878
Lamp Kerosene	89,193
Diesel Fuel	29,719
	4,523,512

The foregoing totals are subject to adjustments for opening and closing inventories and shrinkage to arrive at the quantities sold. Totals

are not available as to shrinkage by products. An analysis of disposals of "taxable" products only for the year 1937 is as undernoted:

	Gallons
Sales in Alberta;	
To Ordinary Customers	3,930.419
To Dominion Government	7,117
To Other Licensed Companies	375,754
	4,313,290
Sales Outside of Alberta	194,530
Total Sales	4,507,820
Shrinkage	22,754
Total	4,530,574

The foregoing statements as to quantities handled do not include oils, greases and accessories, and as stated previously herein, corresponding money values could not be ascertained without the expenditure of an undue amount of time.

Q MR. FRAWLEY: Now, I think perhaps you have not taken very long to run through that report and probably if you would refer to each of the reports with just a short statement as to what is in each, at least that is the Schedules, and calling attention to anything particular about them as you go?

A Taking the statement of Capital Investment in Exhibit "A-1". This gives the details of the various classes of assets which are included in the total in the earlier part of the report.

B. I. Jennett

Exhibit "A-1"

GREAT WEST DISTRIBUTORS LIMITED

Statement of Capital Investment
showing Percentage of Net Income to Invested Capital
For the Three Years ended December 31, 1937

	Year ended December 31		
	1935	1936	1937
Current Assets and Prepaid Expenses:			
Cash on Hand and in Bank $	10.95	1,138.96	11,608.52
Customers' and Agents' Accounts	39,881.03	58,032.33	57,730.60
Sundry Debtors	-	-	800.59
Deposits	-	383.50	183.50
Merchandise	90,023.62	94,922.57	84,844.83
Prepaid Expenses	2,761.51	3,049.44	2,548.22
	132,677.11	158,326.80	157,716.26
Current Liabilities:			
Bank Overdraft	13,607.66	21,512.43	-
Trade Accounts Payable)	88,778.66	92,056.23	74,002.88
Gasoline and Sales Taxes)			10,796.32
Customers' and Agents' Accounts	-	-	6,985.00
Dominion and Provincial Income Taxes - Estimated	3,129.92	7,999.67	12,933.12
	105,516.24	121,568.53	104,717.32
Net Current Assets	27,160.87	36,758.27	52,998.94
Fixed Assets:			
Land	3,322.77	3,770.97	4,645.97
Buildings	14,131.29	19,636.87	23,107.93
Cars and Trucks	29,803.14	31,605.42	32,608.58
Plant and Equipment	43,084.92	53,277.57	48,621.96
Drums	32,154.40	48,832.75	58,803.70
Furniture and Fixtures	3,537.98	3,605.98	3,864.31
Total Investment in Fixed Assets	126,034.50	160,729.56	171,652.45
Less Reserve for Depreciation	28,024.49	52,193.36	72,404.96
Net Investment in Fixed Assets	98,010.01	108,536.20	99,247.49
Net Tangible Assets at End of Year	125,170.88	145,294.47	152,246.43
Net Tangible Assets at Beginning of Year	93,621.62	125,170.88	145,294.47
Average Invested Capital for Year	109,396.25	135,232.67	148,770.45
Net Income (as adjusted) $	20,891.87	16,711.29	28,684.79
Percentage of Net Income to Average Invested Capital	19.097%	12.357%	19.281%

B. I. Jennett

A Now, the Trade Accounts Payable, those represent principally the amounts, the largest items, would be the amounts due to the British American Oil Company for purchases of oil from the previous month or perhaps two months. These figures are for the greater part a repitition of what I gave in the report.

Q Yes?

A Now, Exhibit "A-2" is merely an analysis by points of the investment in Fixed Assets under headings of Land, Buildings on Company Land. Buildings on Leased Premises. Equipment on Company Land and Equipment on Leased Premises.

MR. FRAWLEY: I think just the details. May I say simply.....?

THE CHAIRMAN: Surely you are not going to read all of these?

MR. FRAWLEY: No, in fact I do not think we need read a single line. Simply refer to them as you go by and simply say what they are. I think not much more than that. Really they are so well condensed that they do not even need to be referred to at all?

A I have put in the report, I have dealt with the details of all these figures and these Exhibits give all the details.

Q I would think if you simply went to "B-1" and simply say that is this statement showing Land, Buildings and Equipment as at December 31, 1937 and it amounts to so much, and read the last line?

A Yes. And these details have already been dealt with.

Q Then I would not even do that. On Exhibit "A-3".

(Go to Page 12,148)

"A-3", are details of the total on the last column of Exhibit "A-2", that is sundry equipment as per Exhibit "A-3". It is just a condensed statement.

Q "B-1"?

A "B-1" is a condensed Profit and Loss account and shows the sales and costs of sales and gross profits by provinces and the percentages which we have already dealt with.

Q Yes?

A And it breaks the expenses which we dealt with in total, down into a little more detail.

Q That is a breakdown of what you condense in Page 9 of your report?

A Yes.

Q Yes?

A Then the next page, Exhibit "B-2" is simply a breakdown of two classes of expenses which I have dealt with before, four classes as a matter of fact, station and warehouse expense, selling and administrative expense, bad debts and provision for depreciation.

Q It is an elaboration of those items as they appear in condensed form in Exhibit "B-1"?

A Quite.

Q Yes?

A Now "C-1", "C-1" to "C-9" are simply expositionsof bulk wagon, of tank wagon prices, selling prices obtained by the company; the laid down cost at the various plants and the apparent margin.

Q Yes. Now, Mr. Cottle thinks this has some significance.

Perhaps if you would, I mean, you might explain "C-1", which is Ethyl gasoline, "C-2" is Red Head gasoline, "C-3" is Powerite gasoline; "C-4" is Purple gas, light distillate; "C-5" is tractor kerosene; "C-6" is lubricating oils, Red Head Motor 30; "C-7" is lubricating oils, Red Head tractor 50; "C-8" is transmission oil; "C-9" is pressure gun grease, dark green; now certainly do not take all of them but take the standard gasoline, "C-2" and just show what the statement endeavors to Exhibit, I take "Red Head Gasoline", that is standard gasoline?

A Yes.

Q The "Q" gasoline?

A The gasoline which he handles the bulk of business.

Q Yes?

A In this statement we give comparative figures for August 1937 and 1938; there are two sets there.

Q Take a point, take Camrose.

A We will take Camrose, no, do not take Camrose. Camrose is not a good one, there are no sales.

Q Then no, we must not take Camrose then.

MR. HEIMAN: Take Leduc.

Q MR. FRAWLEY: It is too bad we have not got Leduc. We might take Cardston and Stony Plain, one in the south and one in the north.

A Take Stony Plain, the posted tank wagon price at Stony Plain is 25.8 cents per gallon.

Q Yes?

A Now this, the selling price in bulk, they have not, you could not get this from the Company's ledger record, so we selected these prices, we made an examination of the sales invoices for August in each of the two years from which we found that the prices, the selling price for Red Head Gasoline in bulk was consistently 25.80 cents per gallon, that is showing that he maintained the tank wagon price.

Q By the way, that is the Imperial tank wagon price as you show at the bottom of the page?

A Yes.

Q Yes?

A Now the laid down cost, the truck haulage to Stony Plain is 3.82 cents per gallon.

Q From where?

A From Calgary and that gives a laid down cost of 18.20 cents at Stony Plain.

Q Yes?

A That 18.20 cents is the laid down cost of 14 cents at Calgary plus the haulage.

Q That is the price at which Mr. MacKenzie buys at Calgary plus the 3.82 cents truck haulage which gives you the laid down cost at the Stony Plain station of 18.20 cents?

A Yes, and that gives you an apparent margin of 7.70 or 7.60 cents per gallon at Stony Plain but you will observe there that we took one in which an unusual margin is obtained. I think the reason for that is on account of the break in haulage, that is just outside of Edmonton, that is an unusual case.

Q That is unusual?

A Yes.

Q Would that not extend to all of the points running out of Edmonton, I do not know what stations he has up there but that would apply to all of the stations along that line between Edmonton and say Wabamun?

A I cannot say. I just took the one point there but that would have to be a case of comparing the tank wagon prices with a base price at Calgary plus freight.

Q You say 3.82 cents and I notice that is the truck haulage, are you familiar enough to tell us about that, whether there is anything peculiar about that figure of 3.82 cents to haul a gallon from Calgary to Stony Plain?

A No, but speaking generally we made tests of these with railway freight rates and we found out that they are consistently freight rates less 10%.

Q Looking at Edmonton it is 2.81, I would not think anything unusual about it, if Edmonton is 2.81 cents, that Stony Plain is a whole cent more for about 21 or so miles?

A Well, there is a break in the rate; the rate would be based from Calgary to Edmonton and another local rate from Edmonton out to Stony Plain.

Q You see in 1938 the Stony Plain rate is 3.38 and the Calgary to Edmonton is still 2.81 cents; Stony Plain came down a bit, to 3.38 cents. Now I do not want to press you on this more than you are prepared to speak about them ----

A I am not prepared to speak in detail of that case.

Q These are the haulages which you found in the books, which this Company paid?

F. C. Pruitt

Q [illegible]?

A [illegible].

Q [illegible] the [illegible] remain [illegible] not [illegible] station [illegible] there [illegible] the [illegible] that [illegible] the [illegible]?

A [illegible] the one joint there but that [illegible] in the [illegible] right.

Q [illegible] that is the [illegible] about that, what [illegible] that figure [illegible] again?

A [illegible] with [illegible] that they are [illegible] rates [illegible].

Q [illegible] did [illegible] everything [illegible] cents, [illegible] 21 [illegible] in the note; the rate [illegible] another [illegible] long [illegible].

Q [illegible] the story [illegible] them [illegible] wants. [illegible] them ——

A I am not [illegible] which you [illegible] in the [illegible], which [illegible]?

B. L. Jennett

A Yes.

Q And it gave them an apparent margin in 1937, August 1937, at Stony Plain of 7.6 cents and then coming immediately to 1938, the posted tank wagon price of Imperial Oil was down and the Great West Company's selling price was down accordingly; the truck haulage was down to 3.38 cents and he therefore had a laid-in cost in August 1938 of 14.38 cents as against 18.20 cents in 1937 and he had a margin, before commission, in 1938 of 5.92 cents as against 7.60 cents in August 1937?

A And it will be observed that that margin of 5.92 cents is very consistent with all points except when we get to points south of Calgary.

Q Now similarly Edmonton, the bulk plant in Edmonton, every plant all over the province in fact, is filled up from Calgary, all of the bulk plants are supplied from Calgary?

A Yes.

Q You are aware that deliveries, the British American Refinery does the supplying?

A Yes, they supply it to him and it is trucked to all points.

Q Edmonton has an apparent margin before commissions in August 1937 of 6.31 cents and in August 1938 of, in 1937 in August of 6.31 cents and In August 1938, 5.69 cents and your note is that at Edmonton as well as at Calgary, at Calgary and at Edmonton and at Lethbridge these plants, they are central bulk plants at which all expenses are assumed by the company and commissions do

not apply, so that the company had a margin at Edmonton of 6.31 cents in August 1937 and in August 1938 5.69 cents, yes. Now let us get the smallest one and find out where that is, it looks like Cardston in the south and you might perhaps examine that, Mr. Jennett?

A Well, Cardston in 1937, the posted tank wagon price is 22.20; an examination of invoices indicated they maintained that price. The truck haulage to Cardston is 1.87, giving a laid down cost of 15.87, leaving an apparent margin of 6.33 cents, which is 6-1/3rd cents before commissions.

Q Yes?

A Now in 1938 the tank wagon price was 18.20 cents, which is maintained in sales bulk, in the selling price; the truck haulage is 2.81 cents and the laid down cost is 13.81 cents, leaving a margin of 4.39 cents.

Q Mr. Jennett, I see that you show a freight rate in 1938, in August 1938 of 2.81 cents from Calgary to Cardston; it is the same by the way as Calgary to Edmonton?

A Yes.

Q You feel quite sure that is correct of course?

MR. HELMAN: In 1937 he has 1.87 cents.

Q MR. FRAWLEY: Yes, there was an increase there from 1.87 cents to 2.81 cents?

A I do not know whether that can be an error or not.

Q Well, the one Mr. Helman called your attention to is the 1937 figure of 1.87 cents, would you mind just looking at that?

A There is an inconsistency there.

B. I. Jennett

Q Oh, Mr. Jennett, your assistant calls our attention to the fact that the 1937 supply point was Coutts?

A Oh, yes, that is correct.

Q And not Calgary?

A Yes.

Q Now there is one thing I want to ask you about; you show the posted tank wagon price and that is you say the Imperial tank wagon price?

A Yes.

Q And you have found that this Company ordinarily uses the Imperial tank wagon price throughout the province?

A Yes.

Q Then why did you have to ascertain and make a list showing selling price in bulk, would that not be just the same in each case?

A No, there are some cases in which they are different.

Q There must be or you would not have made that distinction. Now, I find in Camrose in 1938 the posted tank wagon price was 19.70 cents and you found that the selling price in bulk was 19.60 cents?

A Yes.

Q Now your note there says:

"Selling prices stated above for Calgary, Edmonton "and Lethbridge central bulk plants apply to sales "in barrel or bulk lots, except in respect to sales "to dealers, garages etc., and other instances "where varying discounts are allowed to meet compet- "ition. Sales from retail service pumps at these "points vary from tank wagon price to 3 cents above."

Well have you got, you would not have any retail sales in here, would you, in this second column, "Selling Price In Bulk"?

A No, not any selling price in bulk but we make a further explanation there that there are other sales at prices which vary from the tank wagon prices.

Q Well, if he was selling to a consumer for instance, presumably he would sell at posted tank wagon price less 1 cent?

A Less 1 cent.

Q That is what you mean?

A That is to garages and other dealers and then there are prices for instance to contract customers like elevator companies.

Q That is posted tank wagon less 1 cent?

A Less 1 cent or some other adjustment.

Q They seem to be, I think, except in that one instance of a departure, perhaps the other products are different, there is Powerite gasoline, well it is a little different, at Stavely the posted tank wagon price in 1938 in August was 15.80 cents on Powerite and you found the selling price of this company in bulk to be 16.10; however, it at least speaks for itself?

A Yes, we just took those invoices as we found them.

Q You took all the invoices for the month of August 1938 at those points and analysed them and found what they had been selling at?

A Yes, and made notes of variations where they applied.

Q And any variation is simply a departure from posted tank

wagon price and it would appear from a cursory glance that the departures were very slight?

A Very slight.

Q And the purpose of the Exhibit, the "C" Exhibits are to show the growth margin, the growth spread between buying price at Calgary and laid-in costs at each of the points you selected?

A Yes, and those points selected incidentally were co-incident in numerous instances with the Texas Company for which we did similar work so as to give comparisons if necessary.

Q Cardston I see had a margin before commissions in 1937 when the supply point was Coutts, of 6.33 cents per gallon and in 1938 when the supply point was Calgary, August 1938, that gross margin, before commission, had been reduced to 4.39 cents?

A Yes, now the explanation of that difference there is this, in 1937 the tank wagon prices were based on Calgary prices; Calgary or Coutts prices, with the freight from the nearest point.

Q Whichever.....

A Whichever was ----

Q Whichever was cheaper, Calgary plus freight or Coutts plus freight?

A Yes, but in 1938 the basis was changed, I do not know what month it was changed in.

Q June 21st, 1938?

A Calgary was made the base and tank wagon prices, for all prices, was fixed for Calgary base plus the freight

to all points in the province with the exception only of a line from Lethbridge to Medicine Hat; where a price of 1 to 2 cents was made to meet competition.

Q Just to follow that up, in 1937, the Imperial had a refining operation at Coutts?

A Yes.

Q And the B. A. had one too?

A Yes.

Q And in 1938 both of those ocompany's ceased operations at Coutts and made all their products at Calgary?

A Yes.

Q They therefore changed their price structure and made it all Calgary plus freight?

A Yes.

Q Except that when they got down into what you might call the Coutts area, in the face of the Montana competition, they brought the tank wagon prices down to something below Calgary plus freight?

A Yes.

Q Because the Montana competition would not permit the other?

A Yes.

Q All right, I think that is enough for the "C" statement.

A They are fairly uniform all the way through, that is in the matter of the set up and the "D" statements ---

Q Yes. Now just to stop a minute at Exhibit "C-6", please Mr. Jennett, and see what the gross margin or even the net margin was on Red Head, Motor 30, would that be a typical, large selling of lubricating oils for this company?

B. I. Jennett

A Yes, we have taken, it is the middle grade you see and I made a note there:

"Red Head oils, motor 10, 20, 30 and 40 and tractor "40 are sold at 80 cents per gallon for full drum "lots. The cost price varies approximately 4 cents "between motor 10 and tractor 40 and, in the above "statement, motor 30 was taken as a fair average."

Q Yes, now just pick out a few points and tell us what the Exhibit shows?

A Well the statement is, the first part of the statement there, against which the green figures are shown are based, are built from the same basis as for gasoline and take for instance, take for instance Stony Plain and ---

Q Yes?

A The list selling price in drum lots is 80 cents a gallon and incidentally that price is maintained throughout the province.

Q Yes?

A Now the selling price, taking his commission off, gives the company a net figure of 67 cents a gallon; now the cost, truck haulage, is 1.26, giving a laid down cost of 36.64 and resulting in an apparent margin, after commission, of 30.36 cents per gallon. Now that cost, the laid down cost is developed in the statement shown just below, that is we developed the cost for Calgary and Edmonton, those are the only two places at which oil is delivered in bulk lots to the company.

Q Yes?

B. I. Jennett

A For that particular oil the invoice cost at the refinery is 16.44; duty and tax is 4.31 cents; the freight was 12.93 cents, giving a laid down cost at Calgary of 33.68 cents.

Q Yes, so that in Calgary and Edmonton where you have no truck haulage, the lubricating oil, this lubricating oil anyway, which sells at 80 cents to the consumer costs the company at Calgary 33.68 cents and shows a margin, after commission, of 46.32 cents?

MR. HELMAN: An apparent margin.

Q MR. FRAWLEY: Yes, that is right.

MR. HELMAN: No allowance for the drums.

MR. FRAWLEY: No allowance for filling the barrels?

A No, there is a note made also on the statement stating that no provision is made for drums.

Q Now Mr. MacKenzie might tell us something about this oil when he gets on the stand but can you tell us where this Red Head motor 30 oil comes from?

A Yes.

Q Exhibit "c-6"?

A Exhibit "D-2", Red Head Motor Oil was purchased from Champlin Refining Company and the Ohio Oil Company.

Q From the Champlin Refining Company which shipped from Oklahoma, this is the same information you have, as on cost I mean?

A Yes.

Q On Exhibit "C"?

A Yes, it gives greater detail as to cost.

Q In August 1937 the Company paid 13.7 cents a gallon U. S.

or 16.44 cents Imperial and in August 1938 the price was reduced, they paid 11.9 cents American and 14.39 Imperial. They paid 2¼ cents per gallon duty; 2.06 cents sales tax in 1937, sales and excise tax in August 1937, 1.38 cents in 1938; freight in 1937 was 12.97 cents and freight in 1938 13.43 cents, which gave them a delivered price at Calgary, bulk plant, delivered cost at Calgary bulk station in August 1937 of 33.72 cents and in August of 1938 of 31.90 cents, that is shown in your Exhibit "C-6", yes, all right Mr. Jennett, I think that is all you need to do on these "C" Exhibits; the rest can be easily understood now?

A Yes.

Q They all follow the same pattern?

A Yes. "D-1" shows the source of supply for the motor fuels and "D-2" for the oils.

Q MR. HELMAN: When you say "cost per gallon" what you mean is "purchase price per gallon"?

MR. FRAWLEY: Laid-in cost.

MR. HELMAN: The word "cost" has so many meanings.

A That is the purchase price, yes.

Q THE CHAIRMAN: What the company pays?

A Yes.

Q MR. FRAWLEY: What the company paid delivered at Calgary in the final figure?

A The cost, well there is for instance in the, on Exhibit "C", or we will go to "D-1", the cost per gallon at refinery, that is the purchase price.

Q Yes?

A And when we develop on "D-2", when we add all the cost of landing, we either call it "laid down cost" or "delivered cost".

Q MR. FRAWLEY: I think it is quite clear what you mean?

A Yes.

Q MAJOR LIPSETT: Did you make any investigation at all of the cost or were you able to, the cost of treating these oils when they were delivered, which accounts for the spread between the laid down cost and the selling price?

A No, there is no information available in that respect.

Q MR. FRAWLEY: Mr. Jennett, perhaps you do not know about this, you show a series of truck haulages here on Exhibit "C-2", now that is what the company paid out to have their products hauled, is it?

A Yes.

Q Now do you know whether or not this company operates as a separate department, for instance, what might be called a haulage department, do you know if they do or not?

A I understand that it does maintain a number of trucks of its own which it uses for delivering its products but as to what extent those are used I cannot say because in the cost record the trucks were by number and I did not break it down whether they were company trucks or outside trucks.

Q But whether it was a company truck or a custom truck, the books show that there was a cost to Stony Plain, say in 1937, of 3.82 and in 1938 of 3.38?

A Yes.

B. I. Jennett

Q And whether or not the company's trucks hauled it to Stony Plain or some custom trucker, the books did not show so far as you are concerned ---

A The books did not show but I believe the greater part of that trucking was done by hired trucks.

Q You did see however that the company had more or less of a policy to pay custom truckers or to allow itself, 10% under established freight rates?

A Yes.

Q So that we may take it, that pretty well all the way through this 3.82 to Stony Plain in 1937 was at that time 10% of the then freight rate?

A Of the then freight rate.

Q Then there must have been a reduction in the freight rate?

A There seems to be something peculiar there and I think we had better investigate that and report back to you.

Q You might also look at Stavely, well Stavely would be a southern hauling point.

A Is Stony Plain on the C. N. R.?

Q Yes.

A Then there would be a break in the rail rate.

Q Oh, yes, there would be a break in the rail rate.

A And that would increase it.

Q Not necessarily, it could go from Calgary to Edmonton by C. N. R.?

A Yes, that is true.

Q Well, if you have nothing more to say about that, I just wondered, these, the products, of this company, generally speaking, are all hauled by truck, are they not?

B. I. Jennett

A Yes.

THE CHAIRMAN: Any questions, gentlemen?

MR. HELMAN: I have no questions, My Lord.

THE CHAIRMAN: All right, thank you, Mr. Jennett.

(Go to Page 12,164)

-2
1

G. A. MacKenzie.

GEORGE ALEXANDER MacKENZIE, having been duly sworn, testified as follows:

Q MR. FRAWLEY: Mr. MacKenzie, you are the President and General Manager of the Great West Distributors Limited?

A Yes.

Q you have been asked to come before the Commission and be prepared to answer some questions and make such submissions and suggestions in connection with the Commission's work as you may?

A Yes.

Q Mr. Helman is here representing you?

A Yes.

Q MR. HELMAN: You have prepared a brief on behalf of the Great West Distributors Limited, that you have before you there?

A Yes, I have some extra copies of this, my Lord. I do not know what the practice is, whether the Commission would like to have copies of it.

THE CHAIRMAN: We do, yes. The practice is we each have one and the Reporter has one.

MR. FRAWLEY: That will be Exhibit---

(BRIEF ON BEHALF OF GREAT WEST DISTRIBUTORS LIMITED IS NOW MARKED EXHIBIT "529".)

Q MR. HELMAN: Would you just read that brief to the Commission, Mr. MacKenzie, pausing at such places as the Commission or Mr. Frawley may want to ask you any questions on it.

A BRIEF ON BEHALF OF GREAT WEST DISTRIBUTORS LIMITED.

Some suggestion has been made to this Commission

G. A. MacKenzie.

that the Independent Jobber should be eliminated. This brief has been prepared to show some of the reasons in the history of this Company which illustrate the economic benefit to the Oil business of the existence of the Independent Jobber. In the first place most Refineries are operated by large organizations. These large business organizations tend to become inefficient. The same is true when the Government goes into business. Routine is substituted for discretion. The large organization does not accommodate itself to changing conditions as easily as the small efficient business unit. Moreover, our business is actively managed from Alberta. A remote directorship cannot deal as effectively with new conditions as they arise as we can. Some of the benefits of the jobber to the Oil Industry in Alberta are the following:

1. Permits the Refineries to sell their petroleum products over wider areas without providing investments for distributing and credit facilities.

Q THE CHAIRMAN: Just what does that mean. Permits the Refineries to sell their petroleum products over wider areas without providing investments for distributing and credit facilities?

A Well, we have the investments in our plant.

Q That helps the refineries?

A And the equipment, and we carry all the overhead charges such as insurance and things of that kind. They have no risks whatever. There are investments of that kind which is all absorbed by us. Our stations and truck and equipment and distributing plant.

Q In what way does that cause the cost of the product to be

G. A. MacKenzie.

less, if any?

A I have described that a little further on, my Lord. I think that will all be covered.

Q MR. COMMISSIONER LIPSETT: On this point, have you distributing points at any points where the B. A. or the Imperial do not operate?

A I believe possibly we have.

Q THE CHAIRMAN: Do you know?

A I have not picked them out but referring later here to that and in connection with that map, that I do not see here now, that Mr. Frawley had illustrating the points that the different companies had - I have not been here very often ----

Q MR. COMMISSIONER LIPSETT: I would be glad if you could give us a list of the points where you have distributing points and where the other companies have not?

A I will be pleased to submit that later, Mr. Commissioner.

Q Yes.

A 2. As an illustration of the benefits of the distribution of petroleum products by this Company I should like to give the following example. At the time we commenced business it was our opinion that the system in effect was not modern nor economical. Although some of the changes we inaugurated have now been adopted by some of the distributors, the old conditions exist with many of the Oil Companies operating in this Province and Western Canada. We commenced by installing underground storage tanks at the point where distribution was made and we also included our retail outlet at such point so that both the wholesale and retail business were conducted from one place. This brought about a substantial saving

G. A. MacKenzie.

which many of the refineries ultimately adopted. In addition delivery was made by us through truck operation instead of tank car operation. We can haul from three to four different grades of fuel in one truck. From our experience, we are of the opinion that where large outside storage tanks in country points are exposed to climatic conditions and where the distribution is not large, such as is the case of Ethyl Gasoline or Standard "Q" Brand Gasoline, the value of the products would greatly deteriorate as to the anti-knock quality of the fuel where Tetraethyl Lead was used, but through our form of distribution, a fresher and better fuel is available to the consuming public as the amount of fuel in storage was smaller, the storage is more efficient and delivery was made by us through truck operation instead of tank car operation.

Q MR. HELMAN: Just pause there. This system of using underground storage, which has been the way you carried on your retail business, that was inaugurated by your company?

A I believe it was.

Q And the system of making distribution by trucks instead of by tank car, that was inaugurated by your company?

A I believe so, yes.

Q And you contend that these things have been of considerable benefit to the consuming public?

A I do.

Q THE CHAIRMAN: Mr. MacKenzie, you make a point new to us, that there is less deterioration in your underground tanks?

A Yes. My Lord, what I wanted to point out was----

G. A. MacKenzie.

Q Are you satisfied of that?

A What I wanted to point out was this, I believe it has generally been conceded, unless in recent years since we commenced that some change has been made in the tetra-ethyl lead; for instance, you take in the country points where there is no large sales of ethyl gasoline or what we term Red Head, which is treated "Q" brand gasoline, treated with tetraethyl lead, that product deteriorates. It seems to go away. You have not as good a product unless it is used with reasonable promptness, and where a large storage is kept, with many of the oil companies, and I do not believe it will be denied by any, when they get in that position in many instances they put reduced prices on to try and dispose of the product, that has a lower value. With our form of operation which we put in that condition does not exist because we put in smaller storage tanks of from 1,000 gallons to 2,000 gallons and the smaller quantities of this product is kept underground and is not exposed to the sun or to weather conditions. And deliveries are made more quickly and it is better fuel than when it is kept there for a while.

Q THE CHAIRMAN: You do more mixing and more frequently?

A Yes, we put out our products more frequently, which I deal with that here later on too. And again there has been many cases in country points where we do that, where we have electric pumps in making the distribution and the man comes and says "This product was exposed to the sun and in putting in my drums I do not get the full gallons."

G A. MacKenzie.

Now, in the tanks underground it is cool and that condition is eliminated.

Q That is what I want to know about. I can understand with your small tankage that you are renewing it from fresh batches?

A That is right.

Q And then obviously it would be fresher?

A It is fresher.

Q We have heard that there may be deterioration if it is long standing. But what I wanted to explore was has it been decided that storage underground will lead to less deterioration than storage above ground?

A Oh, yes.

Q Certainly it would have an effect on evaporation but I am referring to deterioration?

A This system is more modern and will actually do that. The other condition is the exact reverse condition of it.

Q That is a point. It has been suggested to us, by inference at least, that underground storage could be well pooh-poohed. Now, you are saying something quite different. On what do you predicate your statement. This may not be important to you but it may be to us, I mean this point?

A My experience. Naturally, possibly many people have been in the oil business longer than I have but at the same time I am pointing to my experience, the practical experience I have had in this business. We ourselves have outside storage such as at Edmonton, Saskatoon and various points, and we have found where we can put products in those larger tanks and we can move it rapidly, to prevent evaporation losses and other things, we can get away from any of these things. But we say that in the smaller towns, and that is

G. A. MacKenzie.

the large majority where distribution is made from, and I will leave that to any man's intelligence, that if you have a tank that is exposed to climatic conditions, with the sun it heats up and it cools and goes back and various matters, that the tetraethyl lead in these products, unless there has been something changed recently that I am not aware of, it must, the anti-knock value of that product must naturally go down. It cannot help it. And that is a point I do not think possibly it will be denied by practical oil men that are in the oil business but what that is a fact. Unless there is something that has come lately that I do not know of. But our contention has always been that it is fresher fuel and it is better fuel and unquestionably we do not seem to have any complaints from our products, from the distribution of them from underground storage as against the other. It is quicker and more modern.

Q MR. FRAWLEY: That is size, smaller storage and quickness of turnover?

A Yes.

Q But if you had the same tanks underground as you have overground, would there be any difference at all?

A Yes, there would be a difference in the fuel. There cannot help but be a difference. We have built up this system of distribution and I believe I might say, Mr. Frawley, that you are quite conversant with that and you have had varied experience, and I believe you would agree with me that is a more modern system and a more ideal way of handling the products. Many people are going into that system. I believe we were responsible for the creation

G. A. MacKenzie.

of it in this Province.

Q Yes, and I think so too. There are a lot of other things in connection with underground versus vertical storage and so on?

A Yes.

Q But following up what the Chairman has been saying, the point of this operation is there is less deterioration if the storage is underground than if it is overhead, forgetting about the quicker turnover. You still feel there is less deterioration in underground storage, even granting it may be of the same capacity, than there is in overhead storage?

A Yes.

Q We will have to explore that?

A Yes.

MR. PLOTKINS: May I ask a question?

THE CHAIRMAN: Yes, certainly.

Q I can understand about evaporation and I understand a certain measure of deterioration, but the witness is suggesting quite a new point, as I appreciate his evidence, namely, that this tetraethyl product will deteriorate.

MR. FRAWLEY: Yes, that is right.

THE CHAIRMAN: It loses its qualities in time, and that it does so in a lesser degree if it be underground. Now, that has not been explored with the tetraethyl people.

MR. FRAWLEY: No. It is too bad, because they were here for a long time and if we had known this.

THE CHAIRMAN: It may be too bad but I think, perhaps, they should be given an opportunity to speak on it.

MR. FRAWLEY: Yes, and Dr. Brown will be asked to speak about that too. But I would like the Ethyl people

G. A. MacKenzie.

to make some statement on it.

THE CHAIRMAN: It is quite new.

A I know that was the experience and unless there is some inhibitor or something of that nature that has been put in to offset it, I am only giving it to you from the actual experience I have had, and I understood that thing would be brought up by the other people, but I am giving my evidence of the conditions and things that we have done as jobbers.

THE CHAIRMAN: I think it will be very interesting to hear you justify your existence and one hopes you will do so quite satisfactorily.

Q MR. COMMISSIONER LIPSETT: Mr. MacKenzie, on the question of this deterioration, is there any greater deterioration in the small tanks on the railway siding or country points than there would be in the big tanks at the refinery?

A Well, of course, with large tanks at the refinery, the way I understand it, the refinery has to send samples to the Ethyl Gasoline Corporation for their product to be tested and then they make up what might be termed a big batch of so much gasoline that they make at one time. That does not stay in those tanks, I presume it does not, long enough to deteriorate. It is comparatively fresh fuel.

Q That is the point I was going to put to you, Mr. MacKenzie. We have a considerable volume of evidence that the refineries operate uniformly throughout the year and that they store the gasoline in slack periods to take care of the peak periods. What I was asking was would there be any more deterioration in the small tanks along the railway sidings in the country than there would be in that storage?

G. A.MacKenzie.

A Yes, I would think so. It is a smaller volume and they have not got the same volume of product to hold in it. If a tank should possibly hold 12,500 gallons of product product, as a general rule they are not full. They are generally put in a tank car which may be 6700 gallons and in a warm day that is heating against it and you have the additional space between the top of the full and the top of the tank, which is like a cylinder, heating like a furnace, and it keeps pulling on it. I think it is quite reasonable it would be more.

Q MR. PLOTKINS: I wanted to pursue that point to get it clear. You know, Mr. MacKenzie that the light ends that evaporate are very high in anti-knock quality?

A Yes.

Q So that a substantial portion of the light ends are allowed to escape through long periods of storage and that in itself will be one of the causes to reduce the anti-knock quality of that gasoline?

A Yes. That is in addition.

THE CHAIRMAN: What do you mean by light ends?

A Well, you have light ends in the fuel that is made like, you take casing head or other products put in gasoline, and it is very much lighter fuel. It is what is first cut off from the refinery manufacturing.

Q MR. PLOTKINS: It is that portion of the gasoline which is allowed to remain or is added to the gasoline to give proper volatility?

A Yes.

Q That is proper starting qualities?

A Yes.

G. A. MacKenzie.

Q And that is lost after long periods of storage?

A In my opinion it is.

Q And being these light ends or this portion that gives the easy starting and acceleration has comparatively high anti-knock qualities in the range of 82 to 85 octane, naturally it affects the octane of the remaining fuel?

A Yes.

Q THE CHAIRMAN: That is over and above any deterioration happening to the tetraethyl lead?

MR. PLOTKINS: That is right. That has nothing to do with ethyl.

MR. FRAWLEY: That would apply to non-leaded products?

MR. PLOTKINS: Yes, just the same.

Q There is another cause for deterioration in storage, and that is gum formation. You are aware of that?

A Yes.

Q You have specified the maximum amount of gum that the refinery should allow in the gasoline when you purchase the gasoline?

A Yes.

Q And your experience is that after two or three months' storage, or even shorter periods than that, depending on weather conditions, that there is acceleration of the gum forming takes place in the gasoline when it is stored?

A Well, from our own experience in our own distribution I cannot say that. We do not hold our product in our main distributing plant long enough. We make rapid distribution from there. But from listening to other people that are in the oil business, that retain this storage for longer periods of time, I have heard the same subject which you have suggested to me.

G. A. MacKenzie.

Q You know that is one of the qualities we require in gasoline, a minimum amount of gum?

A Yes, that is right.

Q And gasoline that is not turned over fast enough at these country points in large tanks it is natural to assume there will be a consequent addition of gum?

A Yes, I would say so.

Q You know too that the more gum the more the anti-knock quality and the general qualities of the gasoline are reduced?

A Yes.

Q So that is one other factor in long storage?

A Well, I did not bring up-----

Q THE CHAIRMAN: What is that. You say acceleration of gum forming and what is the last?

MR. PLOTKINS: I say that is another factor which decreases the anti-knock qualities, and also decreases the general qualities, because it causes that gum.

Q Now, why do we specify the maximum amount of gum in gasoline, Mr. MacKenzie?

A Well, we want to minimize it as low as possible.

Q No, but you recall in years gone by we had considerable trouble with valves sticking?

A Yes.

Q And cylinders sticking due to gum formation in the gasoline?

A Yes.

Q So it is a desirable quality to have a minimum amount of gum?

A Yes.

Q Have you ever had it told to you or have you observed yourself that tetraethyl lead will separate from gasoline in time?

G. A. MacKenzie.

A I have not had that experience myself, no, because we do not keep it long enough in storage. But it has been said by people that are in the business that that happens.

MR. FRAWLEY: When it shows signs of separating, you get it out?

A Yes.

Q MR. PLOTKINS: You observed in the early days of tetraethyl lead that there were complaints from the garage men of lead deposit on the cylinder heads?

A Yes.

Q And you also remember we used to have those same lead deposits in the pump hose?

A Yes.

Q That would tend to show there was separation?

A That is why I wanted to give the Commission the advantage in which we consider our operation is over and above the others, and that is the reason why we started in this manner of this distribution.

Q If there was separation of the lead it would seriously affect the anti-knock qualities of the product?

A Yes.

Q MR. HELMAN: Mr. MacKenzie, you were up to paragraph 3 on page 3 of your brief. I was going to say, my Lord, that you may remember something that George Bernard Shaw said in a preface to one of his plays some years ago. He said "Everyone should have to appear before a tribunal at least once a year to justify his existence, otherwise he should be taken out and shot." If I remember his language?

MR. FRAWLEY: Yes, we might just assure Mr. Helman

G. A. MacKenzie.

this is not altogether an action for a declaration that the Great West Distributors should be wound up.

MR. HELMAN: I would not like lawyers to have to go through that system of justification.

THE CHAIRMAN: Mr. Helman, if, in our opinion, when this is all over, the jobbers in this country play no useful part we will say so in the plainest English and we will recommend that they be eliminated, so far as there is Governmental power to do so. It may or may not be important to Mr. MacKenzie, and it may be a joke to him, whether we do or do not recommend so. That is all up to him.

MR. HELMAN: What I was going to say was that probably other persons in the community should be made to justify their existence. You were at paragraph 3 on page 3. Will you go on from there?

A 3. We also found that, considering the railroad rates, distribution by truck was more economical as on contract trucks we allowed truck haulers, and still do, ten percent below the fifth-class tank car freight rate.

MR. FRAWLEY: That may turn out to be not enough if these new railway rates----

A I am dealing with that further along, Mr. Frawley.

MR. HELMAN: He is coming to that in the next paragraph.

A 4. Further, this form of distribution is much faster as we can deliver to almost any place within the Province during the period of one day. Since this form of operation was created by us, others have followed,

G. A. MacKenzie.

but in many instances our competitors are also delivering to vertical tanks on Railroad Sidings. On account of the adoption of our method of operation, we are now advised that the Railroad Companies are putting reduced freight rates into effect on August 15th for shipments from Calgary in tank cars and these rates will be from 2% to 58% less than the present prevailing freight rates. We shall be pleased to submit to you, if you desire, a copy of the contract which the Railway Companies are offering.

MR. FRAWLEY: I would like to have that. I intended to file something of that same kind, Mr. MacKenzie, but if you have that contract there handy, you might as well file it now.

Q MR. HELMAN: Do you want to make any comment on that contract?

MR. FRAWLEY: Yes, if you wanted to discuss it before you file it, Mr. MacKenzie, all right.

A I might state, my Lord and Mr. Commissioner, that the point of possibly dealing with this part of it a little faster, that the heads of the railway companies, some of them, met me and suggested that our form of operation by truck was the cause naturally of creating them to reduce their freight rates. So they wanted me to give to them our cost of operation on the trucks so as to be sure that they could make a good job of reducing their freight rates far enough so that the trucks could not operate any more. The rate which is being made is not the rate which is published for everyone and for the benefit of all. This is a contract here which is submitted to the Imperial Oil and the McColl-Frontenac and apparently they accepted,

G. A. MacKenzie.

that the Association gave to me. You sign a contract with the railway company that you will haul all your product by rail and for so doing they give you these varied reductions in the rate. In the instances I have mentioned, from 2% to 58%, I have taken the letter in which the Local District Freight Agent of one of the companies, the Canadian National Railway, sent to me, saying what these rates would be. Now, so far we have not accepted this and this means then that the railway companies now are trying to put in a more economical form of distribution than by truck, which was created largely by us through this Province. Through the smaller amount of freight which they had, than they had been obtaining, it was necessary for them to do this. In my opinion it was us that created this condition and that is the reason that these price changes have just come into effect. You will notice the reason it was done. If it was not done for our company and for the large distribution which we had and the truck shipments, if it had not been for that none of these things would have come into being. Not only that, but this creation caused by us, the other oil companies are getting the same price and going into other places, and but for our form of distribution it would not have happened and these new rates would not have been put in. It was definitely created by us as jobbers, there is no question about that.

MR. FRAWLEY: I offer this circular. It is from the Canadian Freight Association. I suppose it is technically known as C. T. C. (A.C.) No. 4.

Q THE CHAIRMAN: This is the form of contract

G. A. MacKenzie.

which the Imperial Oil and the McColl-Frontenac have accepted?

MR. FRAWLEY: It is called "Agreed Charge between the Canadian National Railways, Canadian Pacific Railways and Imperial Oil Limited, Mc-Coll Frontenac Oil Company, Limited, on Petroleum Products as specified herein from Calgary, Alberta, to points in the Provinces of Alberta and Saskatchewan specified herein. Effective August 15th, 1939."

MR. HELMAN: I think you said that in order to get the benefit of these rates the distributor will have to use the railways exclusively?

A Yes. May I have that contract?

MR. FRAWLEY: Let us just mark it.

A I would like to bring out a point on this for consideration.

THE CHAIRMAN: Yes.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "530".)

THE CHAIRMAN: Is it exclusively?

MR. HELMAN: I understood from Mr. MacKenzie so.

THE CHAIRMAN: It may be, but as I recall the British American witness, Miller, he was under no such contractual obligation where the operation could be performed for less money by truck.

MR. FRAWLEY: That is what he said and I was interested in having him show-----

MR. HARVIE: That is correct, Mr. Chairman, and that is possibly one explanation of why they have not signed this agreement.

A I want to look at the Exhibit, my Lord. Now, we have the

G. A. MacKenzie.

right - the railway companies offered us this contract if we would sign this contract, which they submitted to me. What I want to bring out is this, that with this condition and some of the companies possibly going back to the old-fashioned system again, that possibly they have large tanks on railroad sidings such as 30 or 40 years ago, You are right back to that. Possibly they have that equipment and can use it. Now, insofar as this agreement goes, my Lord, it says:

"The shipper shall be at liberty without infringing "the provisions of this agreement to ship the said "traffic from Calgary, Alberta, in trucks of a tank "capacity not exceeding 1,000 gallons, for distances "not exceeding 30 miles by highway (according to the "'official highway map, 1938' of the Department of "Public Works, Province of Alberta), and in the case "of products shipped by rail from Calgary to any "station or place distant not less than 30 miles "therefrom, may transfer such products by truck to "any nearby agency."

That is the way they are closing in on it.

Q THE CHAIRMAN: 30 miles range?

A Yes, and only with 1,000 gallons.

(Page 12,182 follows.)

And then they have the right, when you are reading this contract, to go into your office and if you do not do this and that, they charge this and that back and so on but I have not given them yet our answer in connection with it but----

Q Mr. FRAWLEY: Mr. MacKenzie, if you have a point off the railway altogether, you could not possibly use their facilities, do they make an exception in that case?

A Well they may give you the right, I have not gone through the whole thing, I just took that as a point that you could truck. Of course you could have the right to truck your products in small lots you see. I would say so.

Q Well they would not be so unreasonable I suppose as to refuse you the benefit, if it be a benefit, of this agreement, you must be exclusive, as I understand?

A Yes.

Q You must give them all your business?

A Yes.

Q But you couldn't give them----

A You must sign a contract.

Q But you couldn't give them the business for your substations off the railway and you have to service them in some way?

A Yes.

Q Then they would not hold you to using their facilities to getting your products to that point?

A Well I have not gone into that, that is the whole contract and when you read it you will see.

Q MR. FRAWLEY: Yes, very well?

THE CHAIRMAN: We will rise now for a recess.

(A recess of fifteen minutes was here taken).

::::::::::

Q THE CHAIRMAN: Just to explore a little further what we were speaking about when we rose, Mr. MacKenzie, we have been told that the ideal thing is to have continuous operation of refineries, to store it up, that which is needed in the peak season, during the season when the demand was small, would you not get that state of deterioration you speak about, in the refinery storage under those conditions?

A I do not think so. I do not think that that is in storage long enough and further I question very much if there is sufficient storage of tetraethyl lead as used at those points during that period.

Q What is that again, your last statement?

A That tetraethyl lead is used in standard or Ethyl products during that period, in citing this I have thought over it, that there are places like Vulcan, that is one that I remember, and other points, in which I was advised that products had to be moved on account of the state of deterioration which I cite, recently.

Q MR. PLOTKINS: Mr. Chairman, I think I can clear that situation up for you. Mr. MacKenzie, do you know whether or not the refineries treat with lead for storage, in other words, when they accumulate products for storage, whether or not they actually do treat them?

A I do not know.

Q You do not know?

A I do not know.

Q The practice is, I suggest to you, not to treat and only to bring it up to the proper specifications reasonably soon before shipment, in other words the winter product or the accumulated product would be accumulated in their raw state?

A Yes.

Q And therefore, when you receive the products you would get them at the full specifications?

A At the time we received them.

THE CHAIRMAN: Oh, it is charged in a semi-raw state.

MR. PLOTKINS: Yes.

THE CHAIRMAN: Is not all the processing done, other than blending with the tetraethyl lead----

MR. PLOTKINS: No my Lord, not necessarily. In fact it is not actually. It is stored in such a state that it will cause the least deterioration both in volume and specifications and it is leaded before shipment.

THE CHAIRMAN: How about your light ends?

MR.PLOTKINS: They are also blended or taken care of prior to shipment; the light ends are stored separately.

MR. HARVIE: In special tanks.

THE CHAIRMAN: All right, thank you.

Q MR. HELMAN: Mr. MacKenzie, you had arrived at paragraph five on page three?

A In addition, our form of distribution has not only been of great benefit to the consumers but also to the Provincial Government by addition-

al revenue from the Gasoline used in this truck equipment. We have been advised by the Highway Traffic Board that there are 473 P. S. V. Oil Operated trucks operating in this Province at the present time.

Q THE CHAIRMAN: What is meant by "P.S.V."?

A That is Public Service Vehicle.

THE CHAIRMAN: Oh yes.

And taking on an average the amount of Gasoline used by one truck, which we have taken as from our own equipment, it amounts to 8770 gallons per year making a total consumption for the 473 trucks of 4,148,210 gallons of Gasoline and the Gasoline tax at 7¢ per gallon would amount to $290,374.70.

Q THE CHAIRMAN: That is all on Red Head I presume?

MR. HELMAN: No.

WITNESS: It should be, you know.

Q MR. FRAWLEY: It is your system?

A It is our system they should use it.

Q MR. FRAWLEY: Why do you say 7 cents, is not a lot of that stuff a 1 cent product?

A No, I am not finished with this. I refer to that too.

5. We are also advised by the Highway Traffic Board that in addition to the P. S. V. Oil Operator trucks, there are 379 C.V. Oil Operator trucks used within this Province, which means Company owned trucks and by figuring on the same basis it would mean a consumption of 3,323,830 gallons per year and the Gasoline Tax would amount to $232,668.10, making the total

Gasoline Tax $523,042.80. In addition to the above, we have figured the average cost for licenses per truck as:

Wheel Base $35.00 plus $90.00 -	$125.00
P. S. V. Trucks -473 @ 125.00 -	59,125.00
C. V. Trucks - 379 @ 125.00 -	47,375.00

This makes a total revenue from the trucks per year of $629,542.80. The above figures, of course, are taken approximately as we have no means of figuring as to their accuracy but it is sufficient to give you an idea as to the additional revenue made possible by this form of distribution, which we, as jobbers, believe we are responsible for. In addition to this, if the men employed on these trucks operate on the same basis as we do, that is, we use three men to two trucks, it would mean an additional employment of 1278 men. Naturally there was no advantage for the Major Oil Companies to handle the distribution in that manner until they were forced to do so from an economical standpoint, and may I suggest that if this is not correct and if the railroad shipments did not continue to decline on account of this form of operation which was made possible, then why have the Railway Companies reduced their freight rates? They have done so to meet this competition and in many instances to try and put the truck operators out of business now, and in our opinion, none of this would have been done if it was not a condition created by the jobber.

In other words, my Lord, and Mr. Commissioner, I maintain this, that if this additional revenue I am setting forth here, that it was one created by us in the actual consumptinn of gasoline in

this Province and these additional licenses at the minimum I have, which is very low, I think the average would go much higher than that, and that is an additional revenue to the Province by that form of operation which is created by us largely and which is put forward today by practically every company that is operating within the Province.

Q MR. FRAWLEY: Yes, that is your kind of jobber operation; now there is another called the North Star which does not use your method at all, to speak of, does it?

A It is all right to use his trucks though to make distribution and his trucks are included in this form. May I suggest this, Mr. Frawley, that I can read 6 Clause 6 which you just began to ask me about and it will cover your first question.

Q MR. FRAWLEY: Yes, that is true.

A 6. Further, the Government obtains the full benefit of the Gasoline Tax whereas for Agricultural distribution, they only receive one cent tax and the balance is credited to the farmer through a coupon form for six cents per gallon where the products are used for agricultural purposes.

Q MR. FRAWLEY: Why do you say the Government obtains the full benefit of the gasoline tax?

All I was suggesting is that a great deal of your volume moves at the 1 cent tax?

A Oh no, there is none of it. I am talking about the gasoline tax, the gasoline tax, Mr. Frawley, that is used in the consumption of the operation of these trucks only.

Q Oh?

C3
7

MR. HELMAN: And there is half a million dollars.

THE CHAIRMAN: Over $600,000 of revenue to the Government because this particular form of distribution is used?

A Yes.

Q MR. FRAWLEY: Half a million dollars, yes, of gasoline tax, and that is just the tax which arises out of the operation of the trucks?

A That is right.

MR. FRAWLEY: Oh I see.

THE CHAIRMAN: Plus the licenses.

MR. HELMAN: Which would all go to the railways instead of to the Province.

THE CHAIRMAN: Mr. MacKenzie suggests anything we might suggest, the Government might be slow to accept our recommenxations, if it takes away $629,000.

WITNESS: I am only taking that on the volume that is used for that operation today in the number of trucks.

THE CHAIRMAN: Yes.

MR. FRAWLEY: It looked like a big figure?

A Of course, My Lord, and Mr. Commissioner, I only wanted to bring out to you on this, it was not the Government idea I had in mind at all and I have not noticed at any time that any of these advantages had been brought out, that is just what the jobber has done in creating a condition of additional employment and additional revenue to the Government, within the Province.

Q THE CHAIRMAN: Quite so and I think it is a

point well worth taking and I think your other point is too.

Q MAJOR LIPSETT: I notice also in that revised railway rate, Mr. MacKenzie, that it does not seem to be a long term policy of the railways to give this reduction, it is to terminate definitely in 1940 or 1941?

A Yes.

Q Which might mean-----

A Sufficient time to put the trucks out of business and then go back and change the rate.

Q At least there is that possibility there because it is definitely not to go on after that particular date?

A Yes. Well the whole thing, as you will understand, my Lord and Mr. Commissioner, that through this, and that is why I wanted to bring it to you, and I thought, there has been much said about trucking and railway shipments but in no instance have I seen where it has been brought to your attention actually the benefit that this is to the people as a whole, which it must be and to the Province.

Q MR. HELMAN: You were down to paragraph 7, Mr. MacKenzie?

A 7. We had a Refinery at Coutts, Alberta, manufacture for us a product known as Tractor Kerosene. Prior to that practically all Oil Companies were selling Lamp Kerosene for tractors, where fuel of that kind could be used, but when we introduced Tractor Kerosene it was a better fuel and very much less in price. At that time, so far as I am aware, no other Company was selling a similar product. This product now has a wide distribution throughout this Province and others for Agricultural pur-

poses and is generally known or called as Heavy Distillate by many of the Major Companies. This condition is another illustration of a creation by the Jobber. After this product was found to be successful, then the Refining Companies made general distribution of same. On the introduction of this product, we furnished the farmers with a cheaper and more suitable product to their great benefit. In my opinion, had it not been that the Major Companies were forced to distribute this product by our competition, the farmer would still be using the old, more inefficient and more expensive product.

Q MR. HELMAN: Just to elaborate on that, Mr. MacKenzie, just this Tractor Kerosene which you introduced, you had a manufacturer in Coutts make it up for you according to your specifications?

A Yes.

Q And at that time none of the other companies, these refining companies, were distributing that particular product to any of the farmer consumers in Alberta?

A Not to my knowledge.

Q And after you worked up some considerable trade in it, the other refineries went into that business?

A Yes.

Q And that tractor kerosene which you had produced in that way is something which was considerably cheaper for the farmers than the products which they had been using up to that time?

A Yes.

Q And that is just an illustration of the benefits of the existence of competition in marketing?

C3
10

A That is right and may I say, my Lord and Mr. Commissioner, the name of "Tractor Kerosene" was one which was created by us on account of using lamp kerosene, so I called it "Tractor Kerosene" instead of Lamp Kerosene and since that, as I have set forth, they are still calling this "Tractor Kerosene" but many call it "Heavy Distillate".

Q THE CHAIRMAN: Are you familiar with the distribution system that the B. A. is setting up now?

A Fairly.

Q What do you think of it?

A Well it is in my opinion, it is a good system, it follows along the lines that we operate on.

MR. HELLAN: Then it must be good.

Q THE CHAIRMAN: That is what I was wondering?

A. They are exactly on the same line.

Q And they are adopting your system more or less?

A Yes, they are adopting our system.

Q MR. FRAWLEY: They use depots?

A Yes, but we do too; look at Edmonton and we have tank, we have not got that kind of distribution because we do not think it is as economical still as our system is. You see they take, of course possibly there are reasons for that, they had this old-fashioned system, possibly if I may use that word, and they have these large tanks on railway sidings which, if they put on the market what would you do with them, so they made use of them by putting storage in there and then using their own trucks for distribution to these other points.

Q MR. FRAWLEY: Yes, but let us examine it now so that the Commission will see the points of similar-

ity and the points of difference; it is true the British American is going into their dealer distributors , into that organization and giving up in large part the tankage on the railway siding?

A Yes.

Q But you do truck all of your products to Stoney Plain, as we heard this morning, from Calgary; now in the British American set-up they would not do Stoney Plain from any further say than Edmonton, 20 miles or so, that is a very considerable difference between your system and theirs?

A No, we have for instance, I do not say we truck all our products. We do not. In some instances we ship tank cars to Saskatoon, and in some instances we ship in tank cars to Edmonton. The roads might be bad in certain periods or we might do it under certain conditions. We are not confined to truck delivery at all. We have a few points like Saskatoon and other points like that.

Q That is the business of the Commission to consider that and say what they think about it but I want to put to you something that the Imperial Oil Company officials put to me when I talked to them about this, I did call your system to the attention of the Imperial Oil officials from time to time and pointed out that in my opinion it was a very good system of distribution but they said to me "How would Mr. MacKenzie get the products to these parts of the Province beyond the gravel", that was always their answer to me, what do you say about that?

A Well when that condition applies, beyond the gravel, we have stored there, we have looked ahead and taken care of that.

Q But you have not very many points, I wish I had my map here, I was looking at my map. I did find you had a point or two up in the St. Paul district, which is off the gravel, but not very many. I did not count, maybe more than one or two up there but the point they make is that there is no hope of serving the farmers in these parts of the Province beyond the gravel,-and there are many in the Northern parts of the Province,-with your system?

A Well we have not experienced any trouble. That is all I can say, and as a general rule when you cannot get on the road you cannot get on the farm, if it is on account of wet roads.

Q What about the Peace River Country?

A We do not go in there.

Q You make no attempt to serve the Peace River Country but if there was an all-weather road established from where the gravel ends, somewhere around Clyde, right to the Peace River Country, you could then I suppose serve them?

A Yes.

Q I mean the distance would not bother you?

A It never has.

Q So what is keeping you out of the Peace River district now is perhaps the fact that you have not a dependable all-weather road to get up there?

A Yes.

Q And the railways have to go there?

A Yes.

Q And that means then for that Peace River district, just to canvass both sides of it, there must be some railway siding,

pretty general railway siding system of distributing in the Peace River Country?

A Oh I would think so.

Q MAJOR LIPSETT: Mr. MacKenzie, you ship to, what is the further point you ship to by truck?

A I believe Fort Kent, you are talking of Alberta, are you not.

Q Yes?

A Fort Kent.

Q How far away is that?

A I do not know, it is about 400 miles, I have not the exact mileage. I could get it for you.

Q It is over 400 miles?

A Yes. I might also state too, my Lord and Mr. Commissioner, that when you brought up that, Mr. Commissioner, you will note on the railways, in the reduction of freight rates, there are only, they are only hitting you rather hard where it is very profitable to truck but in a position like that, where they do not think our competition is sufficiently keen, that that does not happen.

Q MR. FRAWLEY: No, 270 miles is the limit.

A 270 miles and I presume it is their idea that when we get very active in that district then they will change the freight rate.

Q 270 miles would take them to Vermillion, for instance, where you have a station?

A I am not familiar with that.

Q No, it might not.

MR. HELMAN: No, it would not.

Q MAJOR LIPSETT: Between that 270 miles and

the 400 miles, which appears to be your maximum, Mr. MacKeznie?

A Yes.

Q Are you able to compete with trucks as against the railways?

A We pay 10% below the freight rate, to Fort Kent, the first-class tank car freight rate, that is on a full tank car rate.

Q Do you run your own trucks?

A We run a lot of our own equipment and we lease equipment, we operate both.

Q And you have actual cases where you hire trucks to take it up to Fort Kent?

A Yes, and that is the rate we pay.

Q I was wondering whether hiring trucks was the same as your own?

A Yes, we make it our practice with our trucks, the same, and that is the rate, 10% below the first-class freight rate to any place within the Province or any place they operate out of Calgary.

Q And these hired truckers, they will take it, you could give an order to one of your hired truckers here in Calgary to go to Fort Kent and he will go there?

A That is right.

Q THE CHAIRMAN: How will the reduction in freight rate effect your trucks?

A I have not figured; on outside points it will not make any difference.

Q It will not effect you at all if your truckers are paid at the same rate, 10% below freight rate?

C3
15

A Well if they were able to do that, but they will not be able to do it on small hauls but we are working on that and we have not decided what to do and the railway companies naturally want us to go in on this contract, which I do not see how we can, but for instance at a point like Edmonton it is only 1/10 of a cent a gallon less there, it is 2.7 I think, I think it will figure out on this reduction, but where the rates are so low is rather points up between here and Edmonton you see and so on. They are figured I believe on the same basis at that which is correct in Ontario or Quebec but in Alberta it is an entirely different local condition to what it is in Ontario.

Q MAJOR LIPSETT: I suppose it goes in an inverse ratio according to the distance?

A Yes, it starts at 2%.

Q MR. HELMAN: Well we have strayed away from your point in paragraph 7, Mr. MacKenzie, that you were responsible for the creation of this product which is known as "Tractor Kerosene", which is now being given to the farmers at considerably lower price than the products they have been using up until that time. Will you go on now in paragraph 8?

A 8. As a further example of the benefits which the Independent Jobber may provide, I wish to cite the following example: On December 17th, 1932, the East Crest Oil Company had approximately sixteen thousand (16,000) barrels of Turner Valley Raw Naphtha in storage which they were unable to sell. Mr. Price of the East Crest Oil Company met me and discussed this matter and we made an arrangement to purchase the quantity

which they had on hand, together with their additional production of this product. We created a great demand for Naphtha of this kind. Later the other Companies commenced to supply the same product. In addition to this, we erected a small Treating Plant for Naphtha out of which we manufactured a Fuel which is generally now known as Turner Valley Gasoline. After we started marketing this product the British American Oil Limited also erected a small Treating Plant at Turner Valley but we are not certain whether they operated same or not. In our opinion, through this it was made possible for Turner Valley Gasoline to be placed on the market for use in this Province at a lower cost to the farm trade and to the consuming public.

Q MR. FRAWLEY: Mr. MacKenzie, you are not taking all the credit away from the Gas and Oil Products for putting third-structure gasoline on the market?

A They did not have it at that time.

Q This is before?

A No. This is 1932 but what I would suggest is this that I think it would be of great interest to you, that is the Commission, if you had Mr. Price of the East Crest Oil Company possibly explain this situation, what it meant to him and the arrangements which he tried to make with the other people and where this whole product was tried to be held back and if it was not for us it was quite impossible for him, up to that time, to market that product, and which he was holding in his tanks and he needed the money very badly and that was the situation which was caused by us and we went into the market and treated that and we did that before the other companies you are refer-

ring to. Now I believe that is correct, I may be wrong, but I think that was our creation but I do think it would be of great interest to you to hear Mr. Price on that subject.

Q MR. HELMAN: As you understood, Mr. Price could not sell that product to any of the major companies doing business?

A No he could not.

Q That is the Imperial and the British American and these other companies would not buy Turner Valley Gasoline from him?

A Mr. Price, I thought of this when I called you up yesterday, and I wanted to put as many facts to you as I could and some I forgot about but this one I thought of and I called up Mr. Helman and mentioned it and I called up Mr. Price and Mr. Price told me the oil companies would take so much but he did not have any additional storage for it and he couldn't sell it to them and he had to keep on putting additional storage and then when that was done he could not take care of the additional production of naphtha and we did do that and took care of that and there may be a company, a man named Olson in Calgary, that did treat some naphtha but no general distribution was made at that time of the product, of treating the Turner Valley naphtha.

Q And that was a much cheaper product than the other companies had?

A Yes.

Q And had it not been for your distribution which was available at that time, Mr. Price could not have sold it at all?

A No, and he will tell the Commission if he is asked.

Q MR. FRAWLEY: I thought there was a big sale to the farmers of that product, who used to go to the Valley and get the product?

A That is what I am referring to, but who created that big sale? Here were these tanks full and we opened up this business for the farmers to go and get it.

Q That is what you mean?

A Yes, we opened that up and then after that the other people followed the same practice.

MR. FRAWLEY: I see.

Q MR. HELMAN: I think that is clear, Mr. MacKenzie, and you can go on with Clause 9 now?

A 9. The Jobber generally is not a National Distributor but makes distribution of petroleum products within the Province in which he operates and he is in close contact with the needs of the consumer, but with the Refining Companies who have their Head Offices in New York or other places, this information is passed on to them and they are not in as close contact in the same manner as that of the Jobber. Thus the Jobber maintains a competitive condition which is necessary when viewed from the customers's standpoint.

Q MR. FRAWLEY: Well our jobbers in this Province, except yourself perhaps, are national or almost national, the McColl-Frontenac, the Union, the Canadian, the North Star and yourselves, they are all the jobbers?

A Well I am referring to ourselves. In this evidence I am referring to the local conditions and local companies

which operate in Western Canada.

Q Yes, but when we begin talking about the jobber and his place in the industry and whether he is needed there or not, we mean these people who are jobbers in this Province, there are the Imperial jobbers, the Union, the Canadian, the McColl-Frontenac and the Maple Leaf; the B. A. jobbers, yourself; the Texas has two jobbers, the Lion and the Artic?

A Yes.

Q But I mean, I do not think you can say, can you, that the jobber is generally not a national distributor, so far as we are concerned in this Province he is?

A Well so far as we are concerned we are not.

Q That is true?

A And I say "generally". "The jobber generally is not a national distributor". I say "generally".

MR. FRAWLEY: Yes I see.

(Go to number 12,201)

G. A. MacKenzie.

A 10. In many enquiries which we have made from Companies, particularly in United States, we have found in each instance where we have asked for this information in reference to Jobbers, that they believe it is a sound principle for marketing to be conducted by Jobbers.

MR. HELMAN: I was going to say to the Board, we have two communications. I do not know what the practice of the Board is. Mr. MacKenzie wrote to two large concerns in the United States to see whether they had any suggestions to make with regard to the position of the jobber. He wrote to the Ohio Oil Company and the Champlin Refining Company, both of these being big companies with whom he did business, and he has the replies setting out in brief their position why they think it preferable to market through jobbers. I do not know whether the Board will be interested in having those communications, showing the experience of these large concerns in the United States with regard to jobber marketing.

THE CHAIRMAN: We will accept them, Mr. Helman, but we do not give much weight to anything where it is not supported by a witness in the box.

MR. HELMAN: The first one of the communications is from the Ohio Oil Company, Marketing Division, from Robinson, Illinois.

THE CHAIRMAN: Mark that Exhibit "531".

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "531".)

MR. HELMAN: The second one is a communication from the Champlin Refining Company, my Lord.

G. A. MacKenzie.

THE CHAIRMAN: Just a minute, we will have that one marked first. The first letter is from the Ohio Oil Company. Who are the Ohio Oil Company?

A They are a producing company, a refining company and a marketing company.

Q They produce, refine and market?

A Yes. I believe they are the largest - this is what I have heard - I think they are the largest oil producing company in the world, crude oil. That is the information I have. I think it is part of the Standard Oil.

Q MR. HELMAN: They are the largest oil producing company in the world and you believe they belong to the Standard Oil Company?

A Yes. It is part of the Standard Oil organization.

MR. FRAWLEY: This is from the Marketing Division. I notice it is from Robinson, Illinois?

A That is their head office. But they are operating through Texas and all over.

Q This must be one of their subsidiary offices, I would think. However, it purports to be the official submission of the Marketing Division of the Ohio Oil Company?

A Yes, that is right. They are recognized, I think, as the largest producing company of crude oil in the world.

THE CHAIRMAN: Exhibit "531". What does that say?

MR. HELMAN:

"The Ohio Oil Co.
" Marketing Division.

" Robinson, Illinois.
" July 18, 1939.

"Mr. Geo. A. MacKenzie,
"Great West Distributors, Ltd.,
"Calgary, Alberta, Canada.

G. A.MacKenzie.

"Dear Sir:

"Replying to your wire of the 14th concerning
"investigation being conducted by the royal commission
"relative to necessity of jobbers and their advantage
"if any to the refinery in handling products.
"We are unfamiliar with the exact nature of the
"investigation, also we are unacquainted with the
"proceedure followed by this commission in making its
"investigation, however we suggest the following
"pertinent points which we think are appropriate to
"urge upon the commission as to the necessity of the
"jobber and its advantages to the refiner.
"The Jobber is necessary because:
" 1. It makes the distribution of petroleum products
" possible in communities not otherwise accessible
" to the refiner.
" 2. The jobber can handle products, particularly
" lubricating oils and greases, of several
" refiners thus making available to consumers
" a wide variety of quality products.
" 3. He can operate more cheaply than the refiner
" can in marketing his own refined products
" which savings, by reason of competition, is
" passed on to the consumer.
"Advantages of jobbers to the refiner:
" 1. Permits the refiner to sell his petroleum
" products over wider territories without
" requiring a large investment to provide
" distributing facilities.

G. A. MacKenzie.

" 2. Afford a cheap method of distribution of
" refined products accompanied by a high type
" of quality service.
" 3. The close contact that jobbers have with their
" customers keeps them informed as to their
" changing needs for quality petroleum products
" which information is passed on to the refiners
" who in turn revise the specifications of their
" products to meet the exacting demands of their
" jobber customers.

"The points given, although brief, are those from
"which brief would be formulated were similar investiga-
"tion being conducted in our territory.

"We sincerely hope that these suggestions will yield
"some helpful thoughts in preparing your reports.

" Yours very truly,
" THE OHIO OIL COMPANY
" By: "W. T. Kirkbride."

And the one we got from the Champlin Refining Company, my Lord.

MR. FRAWLEY: I put this in, my Lord.

(LETTER - CHAMPLIN REFINING COMPANY FROM ENID, OKLAHOMA, JULY 15, 1939, IS NOW MARKED EXHIBIT "532".)

Q THE CHAIRMAN: The Champlin Refining Company?

A Yes, they are producers too, my Lord.

MR. HELMAN:

"CHAMPLIN REFINING COMPANY

" Enid, Oklahoma,
" July 15, 1939.

"Great West Distributors, Ltd.,
"Calgary, Alberta, Canada.

G. A. MacKenzie.

"Attention: Mr. Geo. S. MacKenzie. (Personal)

"Dear Mr. MacKenzie:

" Your telegram of the 14th with reference to the "Royal Commission's investigation of the oil industry "received.

" Our Company has for many years operated a large "number of bulk plants and service stations; however, "from the standpoint of economy and welfare of the "public, we have leased out over two hundred and "fifty bulk plants and over three hundred service "stations, which have been Company owned and Company "operated for many years. We find that this lends "employment to more people in the local communities "in which the bulk plants and stations are located, "and fewer people whose headquarters may be elsewhere. "It also tends to create a condition whereby the "profit from the operations locally will be spent "locally in most cases.

" It also maintains a competitive condition which "is so necessary to the healthy condition of any "business when viewed from the consumer's standpoint. "Incidentally, it spurs the manufacturer to maintain "a higher quality of merchandise and places the "actual management of the station in the hands of a "local man or a group of men who are more familiar "with the needs of the community than a representative "of an integrated company who may be imported for the "purpose of operating that particular property.

" Here in the States there has been considerable "agitation to divorce the marketing end of the oil

"business from the pipe lines and from the manufacturing "division, which, of course, would tend to increase "the competitive condition in the marketing end; however, "there is no provision for the disintegration of the "large marketing divisions of the major companies, "or those who own and control a large string of "bulk plants and service stations. In other words, "if there is to be a disintegration of the integrated "companies, there would be little change in the "method of doing business.

" Many of the companies here in the United States "are leasing out their bulk plants and service stations, "just as we are, as it tends to decentralize management.

" I have often made the statement that the major "Company whose headquarters are in New York has little "opportunity to know the requirements of the consumers "in the many States that they serve, and, therefore, "for better efficiency and for the general welfare of "employees and the consuming public, there should be a "decentralization of authority, which would effect "many economies, which, in turn, undoubtedly would be "passed on to the public in the form of lower prices.

" On the other hand, if it is necessary for the "small refiner to build up, at great expense, a string "of bulk plants and service stations before he could "market his products, all of the petroleum industry "would be represented by a few very large wealthy "corporations, resulting in monopoly, and undoubtedly "materially higher prices to the consuming public.

" In summing up I would say that the elimination of

"a jobber from the oil industry would, in a short time, "place the petroleum business in the hands of a few "of the mighty corporations who could, at will, work "a material hardship on those who have found petroleum "products to be a necessity.

" We trust that from the above you can prepare "your brief for the hearing referred to in your wire.

" With best regards,

" Yours very truly,

" CHAMPLIN REFINING COMPANY

" By 'L. A. Snyder.'"

MR. FRAWLEY: Well, Mr. MacKenzie, I can ask you something about the Ohio Company letter. The other one is a longer one. The Ohio Company puts it to you very simply. They say that the jobber is necessary because it makes the distribution of petroleum products possible in communities not otherwise accessible to the refiner. You would not say that would have any force in this Province?

A That is a condition that is possibly different than it is here.

MR. HELMAN: It might arise.

MR. FRAWLEY: How could a community be accessible to a jobber and not to a refiner, or not to the marketing division of a refiner. It might be in Ohio but it is not quite the picture that we have here. We have the Imperial Oil with a refining department and a marketing department; and the British American with a refining department and a marketing department.

MR. HELMAN: Take a small refiner like Mr. Plotkins, who wants to go into marketing to sell his products and cannot open up a distribution system. He might very well sell to Mr. MacKenzie, who could supply the points where he could not go.

MR. FRAWLEY: As I understand the problem, facing this Commission is, Should the jobber as such, the man who operates without any refinery, be eliminated, and should the distribution be left, and is it more economical to leave the distribution in the hands of the people who manufacture?

MR. HELMAN: There are refiners who have no method of distribution, no extensive one, and there may be new ones arise.

MR. FRAWLEY: I quite agree if Mr. Plotkins wants to go into the marketing of petroleum products, say in the northern part of the Province where he may not be very extensively represented, that is a problem. But how is his problem better served by employing Mr. MacKenzie than by going in there himself?

MR. HELMAN: Because Mr. MacKenzie already has distribution points there.

MR. FRAWLEY: Yes, I see. Now, the second point is that the jobber can handle products, particularly lubricating oils and greases, of several refiners, thus making available to consumers a wide variety of quality products. There again the marketing department of the refining companies, the B. A. and the Imperial and Mr. Plotkins, and all the rest of them, and Mr. Mayland, all handle a variety of lubricating oils. They handle those

they make themselves and they are jobbers, really they are jobbers of American oils, aren't they?

A Yes. There is a point I did not dwell on in this, but I think it is a point of great interest that you have taken up. For instance, you take from a jobbing standpoint, and I presume every other refining company in Canada they are jobbers of oil.

Q They are jobbers of foreign oils?

A All oil, for there is only a few oils manufactured in Canada, and I believe they are manufactured from crude oils that are imported.

Q You are quite right. The B. A. is a jobber of all oils.

A Every one of them is a jobber. You take the Imperial Oil. They job Mobiloil, don't they?

Q Yes.

A There is not one of these companies who offer the advantage to the consuming public as does the jobber. I will put it that way. They possibly may not. He may know just what he is about from experience. He has the markets of the world to go to to pick out his lubricating oils, hasn't he. Other companies that are affiliated or associated or are subsidiaries with larger companies, can only handle the product of lubricating oil from that company. That is reasonable. Now, the product may not be so good but they have it and they have got to sell it. But with us that condition does not apply. We can actually, in my opinion, assure the consuming public of an oil - well, they cannot get any better anywhere. You have not got a variety of these things and you have got highly developed competition. I will put this to you, Mr. Frawley,

if I may, and I suggest that at the time before this Commission started possibly there was nobody maybe in Alberta who was more conversant with that than you are, that the lubricating oils that until we jobbers came in here and created the demand for high grade oils, what were the other oils selling at and what is the relative difference in price that those oils cost then and the cost to-day. We modernized it. We changed the system of marketing. We forced the other people to do other things in other manners. To-day there is no question about the quality of Red Head oils.

Q You mean you sold lubricating oils in volume to the farmers and brought tank cars down to the bulk distribution point?

A We started to take lubricating oils in here in tank cars where I believe them people, they could go out with drum cars at their place of business and ship them out, which was an expensive procedure. And all these kinds of things, they were definitely created by us.

Q That was the point. That is the one that impresses me, and if Mr., what is his name - I wish Mr. W. T., what is his name?

A Kirkbrand.

Q Kirkbride, I wish he were here. He says the jobber can operate more cheaply than the refiner can in marketing his own refined products, which savings, by reason of competition, is passed on to the consumer.

A Yes.

Q That,of course, is not so in this Province?

A Why isn't it?

Q Well, have the jobbers done anything in bringing down the

consumer price of standard gasoline?

A Who do you think brought the price down?

Q On standard gasoline?

A Yes, on any kind of product that is manufactured. The jobbers, from competition.

Q Tell us about that?

A And in bringing these freight rates down, and all these things, who did that?

Q Now wait. You are a little confused, you are a jobber. But if you can forget yourself for a moment as being a jobber who operates in a peculiar fashion, but we are interested in the jobber as such, the man who stands between the manufacturer and the consumer. Take the North Star Oil Company. I would like you to try and speak for the North Star Oil Company, if you can. That is purely and simply a jobber for the Imperial Oil, marketing in the same fashion as the Imperial Oil. What does the North Star Oil Company do?

A The North Star Oil Company no doubt is a jobber of the Imperial. But our company does not happen to be in that financial position, that any company is going to dictate to us our policy and what we can do or who we can deal through.

MR. HELMAN: I do not think it is fair to Mr. MacKenzie to ask him that. He is here to defend his own position as a jobber.

MR. NOLAN: May I interrupt. Mr. MacKenzie, what has been going on is that Mr. Frawley is saying the Imperial Oil fixes the price and you as a jobber, an independent jobber, blindly follow that price, and have exerted no influence in making the price what it is?

G. A.MacKenzie.

A Well, now, I will tell you, I listened to Mr. Jennett's report here that we followed the tank waggon price. I have listened to these things that we follow the Imperial Oil price and that we do what they do. But we don't, as far as selling all the commodities goes. We may sell around that price but we do other things too, to retain an agent in business and make distribution, or possibly the equipment which he owns, and different things he does, we pay so much a gallon on that. So by no means do we follow the price structure of the Imperial Oil or anyone else. We follow it in this way, as near as we can, but where it does not pay to follow the price structure right through we don't. That is not the policy of our business.

Q MR. COMMISSIONER LIPSETT: Mr. MacKenzie, you buy your products, I am talking about gasoline, from the British American?

A According to the certain specified gasoline in their contract, yes.

Q Did you buy that gasoline from the British American before they erected their refinery recently in Calgary?

A Yes. The experience of that was - and possibly it would save Mr. Harvie asking me a question----

MR. HARVIE: I may just say on that, Mr. Commissioner, that Mr. Miller has suggested that he might have overlooked explaining the early connection between the B. A. and the Great West Distributors, and he has prepared a statement here that possibly should go in the record, and it will be helpful. My suggestion is that I may read that to Mr. MacKenzie, and if he confirms the

fact, that might go in as evidence. But it does fill the missing link that I think could be well filled up.

THE CHAIRMAN: Well, we will take it on the same basis.

MR. HARVIE: I will read it to Mr. MacKenzie and he can then say whether the information is correct or incorrect. This is a statement re the association between the British American Oil Company Limited and Great West Distributors. The statement is by Mr. A. H. Miller, General Sales Manager of British American Oil Company.

THE CHAIRMAN: Exhibit "533".)

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "533".)

"Re: GREAT WEST DISTRIBUTORS

" I overlooked advising the Commission that at "the time we purchased Northwest Stellarene the "Great West Distributors had a binding contract with "the Northwest Stellarene which we were obligated "to take over at the time we purchased the assets "of the Northwest.

" Northwest Stellarene were refiners only, and, "therefore, did not market their products through "their own distributors anywhere in Western Canada.

" Their policy was to sell their products to "Jobbers and Distributors and consequently Great "West Distributors were their main account for the "distribution of their products in the Province of "Alberta.

" In view of Great West Distributors' being "good marketers, and operating through considerable

"territory where we did not have representation,
"and being desirous of securing sufficient
"throughput at our refinery, we were pleased to
"renew the agreement after the expiry date for a
"further period.

" Whilst the spread between the tank car and tank
"wagon prices on sales we have made to the Great West
"Distributors have varied from time to time, the
"actual spread they received is about equal or less
"than they secured under the original contract they
"had with Northwest Stellarene Company."

MR. HARVIE: I would just ask Mr. MacKenzie if that statement is correct?

A I think that is about correct.

MR. COMMISSIONER LIPSETT: Then, Mr. MacKenzie, when the British American Oil Company commenced to get their oil from the Imperial Refinery you still continued to take your gasoline from the British American, but it was an Imperial product?

A I presume it was. I do not know.

MR. HARVIE: I think the evidence is, Mr. Commissioner, that the Imperial processed it according to the specifications of the B. A., and that it was not the same necessarily as the processing they did for their own crude.

MR. FRAWLEY: No, there was not any solvent oil in it. It all amounts to that, as I understand the evidence.

Q MR. COMMISSIONER LIPSETT: It was not the specification I was trying to get at. During that period, at all events,

G. A. MacKenzie.

Mr. MacKenzie, I suppose your influence on the price, or the price to the public, as a jobber, could only be reflected as to freight rates or to truck competition and things like that. You could not buy your oil any cheaper, your gasoline any cheaper than the Imperial could supply it to their jobbers?

A Well, I never did any business with the Imperial. I did business with the Imperial years ago in their Manitoba market. I may say in all frankness that they are all right. I have nothing against the Imperial Oil. But, yes, we could have purchased our products from Montana, and I do set forth that further on here, at very much lesser prices different times than we could have bought from the British American Oil Company.

Q That would be only in small quantities, I supose, and on special occasions?

A No, in large quantities. There is companies who wanted to contract with us and put tanks in at the Border. But Put some tanks on the Montana side and other tanks on the Canadian side, so they could pipe line it right across to Canada, because they could haul it from there day and night, and keep a staff ready to take care of our requirements. I know at Coutts there is plants erected with pipe lines into the railroad tracks and also all facilities, and we could go and fill tank cars to-morrow morning.

Q You have not found it profitable to do that?

A We have never tried it. We have not taken one gallon of gasoline, or refined products, from Montana. Not one gallon. We have confined ourselves exclusively to Canadian products.

MR. FRAWLEY: I do not know where this point comes up. But if this is covered I won't interrupt you,

Mr. MacKenzie. But as far as I am concerned, I would like to, if it is not too much trouble, if you would present a statement to the Commission showing the dates and the quality of the gasoline that you could have purchased at more advantageous prices in Montana. Mr. Miller made the same statement. It did not seem, with respect, to be very important because it did not obtain to-day. In the year 1939. Nevertheless, for whatever value it has, it seems to be worth while mentioning by Mr. Miller and I would like to know what you can buy cheaper than your B. A. price and particularly what do you say as of to-day, as to whether you could buy any of your products in these quantities you need cheaper in Montana than you can here?

A I am not looking for the Montana market. I am speaking of the people who came to my office and wanted to sell me stuff from the refinery and do the hauling by trucks from Coutts. At the time the British American were manufacturing products there and we hauled in the trucks. But we know we could have taken the products from Montana during that period in which they had the refinery there that would have been under the contract prices we paid and we could have obtained it at a much lesser price.

Q In Montana?

A And delivered into Canada in Imperial gallons.

Q In the year 1939-----

A I am not talking of the year 1939.

Q I mean 1937?

A I am talking of 1937 and those other times.

Q But in the years 1938 and 1939 is it proper to say that you could not have imported from Montana your requirements

of similar quality products and in the amounts you need, at advantage from Montana against your B. A. price?

A I have not gone into that. It was not necessary because I have a contract here to supply these products and there is no reason for me doing it. You know what the products cost.

Q Let me put it to you that the Texas Company of Canada laid in price in Calgary for Fire Chief gasoline is 12.9 cents a gallon, an Imperial gallon. That gasoline is a comparable product with your Red Head?

A It may be, I do not know. You are going back again and you are taking a freight rate that is not a proper rate, in my opinion, you understand . That is, in my opinion, from Montana to Calgary.

Q Well, lower that rate.

A Your freight by truck would be at least 1 cent lower than that.

Q All right. Then say you have a price of 11.9 and not 12.9 and give you the benefit of the whole cent there. You have a better price than 11.9 for that brand of gasoline?

A You mean it costs them-----

Q 12.9 is the laid in cost at Calgary of Texas Fire Chief gasoline, starting with a refinery price of 6¼ cents U. S. gallon?

A Now, I will answer the question, I do not know what the prices are in Montana. I have not enquired. I am not interested. But I imagine if I wanted to go on the market at Montana with the gallonage which we have and make an arrangement with a plant for distribution, I could get a very much lower price than that. I mean, I think

you know I could too. With our gallonage. Because we unquestionably could keep a refinery going twelve months in the year at Coutts. The gallonage would have reduced the crude oil and other prices.

Q What you mean was you could go to one of the small refineries?

A Not one of the smaller ones but one of the larger ones. I am of the opinion I could do that. I have not done it. These people have come to me at different times but I have not done it. I mean you are asking me something that I have not gone into the market for. We have strictly stayed with Canadian goods. Even before when they may have processed our product from Montana crude, I do not know that that is so as far as our company is concerned, but we have not taken gasoline, refined products, from Montana at any time.

Q The only value of this discussion is that when I was discussing with Mr. Miller the price he was selling you your products at, and asking him to compare the price that he was selling to you at of 11¼ cents - we were speaking of 11¼ but we should have been speaking of 11 cents, as against the 12.9 that the Texas Company paid, and he said the reason you got that good price was because there were times in the past, he did not say now, but there were times in the past in which you could have bought your goods in Montana cheaper and he had to give you that good price. I will say from the Montana refinery. Otherwise, that would have not come up about you buying in Montana, - and nobody has seriously said you wanted to buy in Montana, but it only came up in that way in discussing the price with Mr. Miller, that you pay to him. Now, another matter that may be of importance to

this Commission. I want to call your attention to the fact that you had last year a gallonage on which you paid - and I am taking this now from Exhibit "456" rather than from Mr. Jennett's statement - this was prepared after a careful check of all the Provincial Secretaries' returns, and we found you had total tax collected sales of 4,005,834¾ gallons, as compared say to the North Star gallonage of 5,056,210 gallons, or McColl Frontenac's gallonage of 454,000 gallons, or the Canadian Oil Company's gallonage of 2,074,000 gallons. Now, in Mr. Halvorson's Exhibit "316" he told us that the price that his company charged the Canadian Oil Company, the Union, Highway, Maple Leaf, North Star and Texas, was 6 cents under the posted tank waggon at destination for "Q" gasoline. Mr. Miller's Exhibit, the file number of which I have not got, shows that you pay 11 cents for the same gasoline. Now, I simply want to call your attention to that and ask you if you have any comments to make on it. Well, let me ask you this question, are there any other considerations between yourself and the British American Oil Company which would account for the half cent difference which you seem to pay over and above what the Imperial jobbers, with a comparable or much less gallonage, pay to the Imperial?

A Well, these people apparently are working on a spread, a margin, don't they?

Q Yes?

A With us, we made contracts. The last contract we made we made it on the price of crude oil, above or below. I thought it was a good way to make a contract. But as the

G. A. MacKenzie.

price dropped the crude oil did not change, so apparently it did not affect our contract, you see. In other words, it made it more to their advantage than ours.

Q Yes?

Q MR. HELMAN: If it had gone the other way?

A If it had gone the other way our prices likewise would have gone. I thought in making this contract - and it was my own suggestion- that it was a reasonable thing to expect that when prices go down that crude oil would go down in price also. Instead of that the crude oil stopped up and the other prices kept going on down.

Q MR. FRAWLEY: I am not seeking to enquire into your business relations with the B. A. Oil Company, but I thought it worth while to call your attention to the fact that according to this particular page in Exhibit "444", Mr. Miller's brief, that you were paying 11 cents?

A Yes.

Q For "Q" gasoline?

MR. COMMISSIONER LIPSETT: Where is that?

MR. FRAWLEY: In Exhibit "444". It is on the page called Jobbers' Prices.

MR. HELMAN: I might suggest to Mr. Frawley that it would save some time if he might let the witness finish the rest of his statement. This does not seem to have any relation to the particular paragraph he is reading.

G. A. MacKenzie

Q MAJOR LIPSETT: The last paragraph which you were reading, Mr. MacKenzie, and the two letters which I was wanting to ask a question or two about, the competition that they refer to there is competition from an entirely independent jobber, in those letters, as I take it?

A Yes. The Champlin Refinery own their own fields as I understand it and have their own producing wells. They have their own refinery and their own marketing outlets, that is service stations, bulk plants, and all that but they have found that it is best apparently, from what I understand, to divorce all that entirely from the refining end and they then take their refined products to these stations without them marketing and selling it and that is, I believe, the general practice and I also think it is the proper practice, that the refinery possibly should not be in the marketing end of the business at all, he should be a manufacturer and sell to people and I think by doing that, it would be a more economical operation than the present way they are doing it.

Q What I was putting to you was, so far as the gasoline is concerned, under the particular circumstances, the Imperial manufacturing for the British American, and you not wanting any Montana gasoline?

A Yes.

Q You were not, so far as gasoline was concerned, in any position to bring down prices or exercise any particular influence upon prices?

A Not bring down prices, well we open competition in places

generally speaking, in southern Alberta, where we have to, we have other conditions in the business, like we operate, other than just gasoline, we handle lubricating oil.

Q I was coming to that later.

A And through the lubricating oils we have a larger distribution in Western Canada, probably one of the largest in this province and due to that we do keep that competition at these points where it is possibly not too healthy.

Q So far as gasoline is concerned you follow, I suppose, under the circumstances that I am putting to you, the Imperial prices?

A Well, we may handle it in the selling price in that manner but at the same time we do other things with our agents and dealers in the way of giving to them, where they own equipment we might give the agency point 2 cents a gallon commission, that is I am talking about now where he owns maybe his own outlet and we may have put in tanks in conjunction with it, maybe a cent a gallon for the use and rent of that equipment.

Q Similar to what ---

A So that our agent then at that point has sufficient margin so that he can openly compete and operate against the people from Montana or any other place selling petroleum products.

Q That is competition, I suppose, which is quickly met by the British American ---

A No, I do not think so.

Q And the Imperial?

A No, sir.

G. A. MacKenzie

Q Do you sell gasoline at any lower prices than the Imperial agents for instance sell?

A Well I would say we would under a condition of that kind through our agent.

Q THE CHAIRMAN: You say the normal prices are the same?

A Yes.

Q But that your agent is allowed to, so far as the public is concerned, your agent is permitted to operate by subsidiary arrangements in connection with rental ---

A Yes.

Q Or the use of tanks or equipment or such as that?

A Yes.

Q Which would allow him to operate at a lower cost than he ordinarily would have to pay out and that is the same thing as giving him the gasoline at a lesser price?

A It is not given to him at a less price, but you cannot expect a man who has an investment amounting to seven or eight thousand dollars in some place, where he has paid out that investment, I do not say we do that all over, but we do that at some points, that is not the general policy for ourselves but where competition is with Montana products say and competition of that nature, we endeavor to meet that competition and operate against it and it is not a case of following the Imperial Oil policy.

Q MR. FRAWLEY: The consumer price is the Imperial's posted tank wagon?

A Well you take for instance in Southern Alberta and in many parts of this province, there is no such a thing as a

consumer price. There is a general consumer's price put out by the Imperial and these others but it is not always followed. On the surface it might look like that, in theory, but in practice it does not work.

Q MAJOR LIPSETT: Then passing from the gasoline, Mr. MacKenzie, to the lubricating oils.

A Yes.

Q Are you in a position to buy any lubricating oil, or does your contract merely mean that you take your lubricating oils from the British American?

A No, we do not buy any lubricating oils from the British American.

Q Are you in a position to buy then any place you like?

A Yes, any place. We have a certain refined specification on our lubricating oils and that is what we handle.

Q But what I mean is now in regard to lubricating oils, you are in a position to meet open competition?

A Yes.

Q Anywhere you like?

A Yes.

Q So far as the gasoline is concerned I suppose your contract calls for the handling of British American gasoline?

A Up to a certain gallonage.

Q A minimum gallonage?

A Yes, or a maximum.

Q And you are not in a position to handle any other?

A Yes, after that amount. We can handle other gasoline when we run that gallonage, the way I understand the contract. I would give these people an opportunity to

quote us and to do what we wanted and if we did not like the other conditions we are free to purchase elsewhere.

Q So you exercise a competitive influence on the market?

A Absolutely.

Q Now will you just tell us any difference which you find as between that and the jobber who is owned or is completely controlled by a refinery?

A Well I believe the people in that manner have contracted for 100% of their products, that most of them do that. With us we do not. We have a contract with the British American where they agree to supply us with so many gallons a year and when we come up to that point, which we are of course past and more, of our gallonage, then we can go to the other market, to any refinery, the Imperial Oil I presume or any of those and we can say "We want a product, can you manufacture to our specifications "or to the products which we want and what is your price "and what are your conditions" and we will give the British American the same opportunity. Well then if we do not like the conditions we will buy from the other fellow, the other party. They have not got us tied down in that regard, so we are open competition.

Q Your company comes within the kind of jobber outfits which is mentioned in these two letters, because you are independent?

A Yes.

Q And able to buy where you like and get the best price and the best specifications?

A In other words the refinery cannot go to work and place on

us any kind of products they like and the same condition is set forth on the creation which we caused of Turner Valley gasoline and tractor kerosene, we ourselves figured on our close contact with the consumers, and in that respect I am referring to the farmers, and we tried out those things and they were successful and through that it was done, it is very competition and is still today.

Q Then on top of that as an independent jobber you may be interested in bringing in a new product or bringing in some new specifications with which you can still compete?

A Oh, yes, unquestionably.

Q For the moment assuming, Mr. MacKenzie, there is that position with reference to the independent jobber such as is mentioned in these letters, does that in any way cover the case of, as here, jobbers that are tied up or completely owned or completely controlled by a particular refinery or is there a distinction which should be drawn between the two classes?

A For instance I take our company on this basis, a jobber, I am terming the brief here as jobbers because you mentioned jobbers; we take it that we are marketers, just the same as the British American or the Imperial Oil or anyone else but it was generally considered a jobber was a man that purchased a tank car of gasoline or oil and resold it to somebody else, maybe the retailer, that could handle that quantity but today, in terming it as a jobber, I let it go at that, as you know we have facilities all over this province and I am also going to come to this, I think I am talking ahead of something that is coming, but I do not know of any way or anyhow that you can create

cleaner competition and lower the price structure than some of the illustrations which I have given you and I have some further to give to you, some further to come, and these are actual facts.

Q MR. FRAWLEY: But let us deal with this one simple question, let us assume you have a gasoline marketing system and that it is a change from the old orthodox method of delivering from the siding and it is trucking which you instituted because you thought it was more economical, and let us assume it is a much better marketing system, more useful, but my puzzle is "Why have you not done something to the Imperial Oil price structure". I will put it to you, if a farmer walked into any one of your stations today, Stony Plain, Stettler, Vulcan, any place, and wanted to get a truck load of drums of Red Head gasoline, he would pay exactly the same price as if he walked across the street and wanted the same amount ---

THE CHAIRMAN: Let him answer.

Q What do you say about that, as if he had walked across the street and wanted the same amount of Three Star from the Imperial?

A Well I do not say that that is the case in all instances. I was just trying to illustrate to you a while ago that it was not and it is not.

Q Well what is the fact, if I went to the telephone now and asked your agent at Stettler, "What is your price on Red Head Gasoline to farmers", would he not tell me the price was what, I will look it up here and find it, would he not tell me the price was 19.3 cents, which is the Imperial Three Star price, - eliminating the new ones which came in

yesterday, - is that not what he would tell me?

A Yes, but for instance, take Stettler as an illustration, all right, you can make and make delivery out of Stettler to some other point beyond Stettler which tank wagon price is higher than the Imperial, we will absolutely deliver out of Stettler to that other point at a price which is much lower than the Imperial price is.

Q Give me an example of that?

A I will look this up for you and I will submit that for you.

Q You talk of the point of Stettler.

A Now I am not familiar with the points out of Stettler.

Q Well, Gadsby?

A Gadsby or whatever it is, where the tank wagon price is higher than Stettler, if we take and deliver out of Stettler we deliver it to that other point at the Stettler price, which may be 20 miles away.

Q Oh?

A You see, and that is competition which we created, that we are not definitely following the price of Imperial.

Q At Gadsby there is not an Imperial point?

A I am not saying Stettler but there are two or three places ---

THE CHAIRMAN: The witness says he will come back and demonstrate it.

A I will try and look up these stations.

THE CHAIRMAN: Where he is getting below Imperial Oil prices. Now let him do that, give him time to pick them out.

Q MR. FRAWLEY: That is very fundamental, will you pick out places all over Alberta, the more the better, where oil is sold actually under Imperial's posted prices as a regular thing to all the world, not special discounts to your agents?

Q THE CHAIRMAN: The suggestion you see is, Mr. MacKenzie, the suggestion is that so far as the public is concerned you are useless in that you are governed by those prices and that you will never go below the prices of the major companies even although your operation is more economical, even although you can market more cheaply than they, that it does not affect the consumer at all, he gets no benefit. MacKenzie may get a benefit or the refiner may get a benefit but one person who does not get any benefit is the consumer and that on the contrary the trade as a whole will have to increase prices to the consumer because there is an intervening organization known as the marketer or the jobber, call him what you will, who is making a profit over and above the ordinary marketing department of the refinery;; now that is the suggestion and while it may not, you cannot put your finger on it, but it must be absorbed in the total over-all cost to the industry and so instead of saving the consumer something it is bound to increase the price to the consumer; now that is the suggestion made against jobbers and we are here to hear anything that can be said in favor of you too and if you can make any comments upon this, which you have not made to Mr. Frawley, I think it would be important for you to do so?

A That is fair and we will do that, Mr. Frawley.

MR. FRAWLEY: All right.

Q MR. HELMAN: Just to clear up a point that Mr. Commissioner Lipsett was asking, "from whom do you buy your lubricating oils"?

A We buy our lubricating oils from the Champlin Refinery and some from the Ohio.

Q You do not buy any of your lubricating oils from the British American?

A No.

Q And there is nothing to tie you to the British American Oil Company after your present contract expires?

A Nothing at all.

Q So that you are absolutely free to buy as soon as that is through?

A Yes.

Q Anywhere you like in the world?

A That is right.

Q All right, you were down to paragraph 12, I think ---

A It has also been suggested that the Jobber only goes into points where it is favourable to him. You have a map setting forth the different outlets which we have and we are no different from that of any other Company operating within this Province. We take the same chances as they do.

Q THE CHAIRMAN: I am sorry to interrupt, every time you start we think of something else, may I just ask, you have purposely refrained from seeking to

do business with refineries in Montana which from the Canadian standpoint is perhaps most laudable. Were you unable to get your other products made here in Calgary to your specifications so that you were forced to go abroad, I mean following that same reasoning?....

A Yes, prior to this.

Q Through the B. A. or the Imperial?

MR. HELMAN: I am glad you asked that.

Q THE CHAIRMAN: You were unable to get them to make lubricating oils for you?

MR. HELMAN: They could not make as good.

WITNESS: Our previous contract with the Northwest Stellarene Company and the contracts which they took over, the British American, definitely called for certain definite specifications and the contract I believe prior to that also did the same and I do not believe, possibly at that time it was better than what you could manufacture in Canada even at the same price. Then our last contract which we have with the British American, it sets forth that the product which we receive must not be of lower quality you see and specification than our own brand and trade name, the product, so the result is we are not working in the dark under any illusion that any person can give us anything, because they cannot.

Q MR. HELMAN: Mr. Justice McGillivray was referring to the Imperial Oil and the British American --

A We do not purchase anything like that.

Q Just a moment, what he wanted to know was why you did not

purchase them in Canada instead of purchasing them in the United States?

A I see.

Q THE CHAIRMAN: You say you have not really interested yourselves in Montana, "we have stayed with Canadian products so far as gasoline goes" and I am saying, why does not your patriotism carry you along a further step with lubricating oils, or is it that the Canadian companies cannot manufacture to your specifications for the price, or can they manufacture to your specifications at all or what?

A Well the only way they can manufacture to our specifications as a Canadian company would be for them to bring in the base materials from the United States and combine those together and any lubricating oil which is manufactured by the Canadian manufacturers, in my opinion they are not good enough lubricating oils for us to market; I am talking of the high grade oils now. There are some lower grade oils that we have purchased this year from a Canadian company; as a matter of fact we purchased some from the Imperial Oil, not for this market but in some of the places and from Sarnia as well. We did that this year but that is not under our Red Head brand as a high grade oil.

Q MR. FRAWLEY: Now Mr. MacKenzie, one of the particular things that the Commission has to explore is the reason for the importation of lubricating oils. Now the fact is the only company manufacturing lubricating oils in Canada, as I understand, is the Imperial Oil at Sarnia?

A No. The Canadian Oils, they manufacture.

Q They manufacture lubricating oils?

A Yes.

Q But all other companies import, either buy from the Imperial or import?

A Well, I do not know what they do.

Q They either buy, well they buy from the two Canadian refineries or they import?

A Yes, I suppose.

Q The McColl Frontenac Oil Company for instance?

A Yes.

Q Buy their lubricating oils from the Imperial Oil Company?

A I do not think so but they might.

Q I understood they did but in any event do you say that the Imperial cannot sell you their Marvelube Oil under the name of "Red Head" and you have as good an oil as you have now?

A I do not think they would do it.

Q Have you made any attempt to do it?

A No, and I would say it is not as good an oil as Red Head.

Q I wanted to know how far you know.

A Yes.

Q You say you are marketing Red Head because Marvelube, which is the best Canadian made oil I believe, could not be made as good as what you are importing from the Champlin Refining Company?

A Well, of course, that is a kind of technical question which you are putting, but in my opinion I do not think so.

Q You see you have some pretty respectable gross spreads

on Red Head number 30 as appears on Page "C-6" of Mr. Jennett's report, at Calgary you have a margin after commission of 40, I will put it this way, you are selling for 80 cents that which costs you 33.68 and I put it to you that perhaps has something to do with the reason you are importing these oils from the United States, that you cannot buy them cheaper?

A You mean I cannot buy them cheaper here?

Q Yes, that you cannot buy them as cheaply.

A In Canada?

Q From the Imperial Oil Company?

A I think I could.

Q You think you could?

A Yes.

Q You think you could?

A I think I could buy, I am not saying as good an oil but an oil, I might buy an oil from the Imperial Oil which we could use, which is not greater than that price, I do not think it is, I am just talking at random ----

Q I am very much obliged to the Chairman for bringing this point up and the Commission has some time to report, has to investigate and report on the whole business of importations from the United States. Now it is too bad we are working at cross purposes because we cannot have any admission from you that Marvelube is as good as your own so that renders my cross-examination rather futile but what you say, is, you do not think you can buy as good an oil in Canada as cheaply as you can import the American oil?

G. A. MacKenzie

A I do not think anybody in Canada can. If they can why do they all import their better grade oils from the United States and that goes for the Imperial Oil too.

Q That is the reason you import, you say you can get a better oil cheaper?

A Well we can get an oil, for instance we have been in the business a long time, have we not, and the lubricating oils are the foundation of any business. When you take and sell a lubricating oil to a man who has an expensive tractor or a car or anything, you want to be sure you have a good product. Now that is what we have made sure of and to my idea, that is my idea that there is no one in Canada who can manufacture an oil that would be suitable to us as a marketer to put out under that brand name and that is why we take our oil from the United States.

MR. FRAWLEY: I suppose we will have to leave it at that.

Q MAJOR LIPSETT: Is that due to the crude oil which is in Canada?

A It is no doubt due to the kind of crude oil; the crude oil is not suitable in Canada for the manufacture of lubricating oil. There is no crude oil value to Turner Valley crude for the manufacture of lubricating oils and they have to import the crude oil, a crude oil, that has a certain lubricating oil value in it.

Q Is Marvelube made by Imperial Oil in Canada or is it imported?

A The crude oil is, I understand, is imported in. Of course

they will have to answer that question and they will manufacture that possibly from South American crude.

MR. FRAWLEY: There is no doubt that it is manufactured at Sarnia from imported crude.

A They have no crude oil in Canada that has any lubricating oil value.

Q MR. HELMAN: I am sorry I misled you into reading that last paragraph, we omitted paragraph 11, and will you go back and read that?

(Go to Page 12,237)

G. A. MacKenzie

Q That is, Mr.MacKenzie, if I may repeat, there is no particular advantage in there being a refiner as to why they should continue to market gasoline. If it is a necessary condition precedent of the marketing, then you could go into the refining business quite easily?

A We are prepared to do that.

Q MR. COMMISSIONER LIPSETT: Mr. MacKenzie, on that then - I am speaking entirely generally,- would it be a useful thing for the industry either that all jobbers who wished to continue in business should be forced to do their own refining or that all jobbers who are to continue in existence should be made entirely independent of the refineries on the other hand?

A Well, of course my viewpoint is this, that refiners should be like any manufacturers, they should manufacture their products and when they get the product from the crude, let the marketing division or the jobbers do the distributing of the petroleum products. If that were done, it would be more economical and more satisfactory to the people. I am not particularly referring to anyone else but myself. Because we operate throughout Western Canada. We operate in Saskatchewan. We are only speaking of Alberta, but we do take our gasoline and refined products, the major part of it, right out of Calgary and ship it into Saskatchewan. But if that is your viewpoint that the jobber should be eliminated and they are of no value, then I say we are prepared to erect our own refinery. But of course I do not agree. I reverse the idea.

THE CHAIRMAN: We have no viewpoint.

G. A. MacKenzie

A If I am wrong in my ideas, then everyone in the United States or the majority of them today are also wrong, or else why are they wanting to divorce everything from the refiners and not to handle it just on that basis? I think really, My Lord, you will find after you have gone into these phases, and I am bringing a good many of them up, that it is a most economical form, under the general world conditions. I have not heard of anyone who had any other idea that did not think so. I can realize the theory of some of these things, but in practice it is different.

Q MR. COMMISSIONER LIPSETT: Following that line out, Mr. MacKenzie, you think that the jobbers should continue but you think they should be entirely independent of all refiners?

A I think so.

Q If they are not independent of the refiner, they are simply part of the marketing division of that refinery?

A Yes, part of the marketing division of that company. That is why they can be dictated to, but with us that is not the case.

Q Where a company has a marketing division and at the same time these tied-up contract jobbers, is that just a duplication of marketing expense?

A I would not say it is a duplication of marketing expense, no. It is possibly a condition that many people get tied up in that manner is that they may over-extend or may not be good business people and a number of things. They have financially

G. A. MacKenzie

got into difficulties and the other fellow dictates to him his policy and controls it.

Q Then assuming we have a refinery and an independent jobbing system?

A Yes.

Q Then how should the marketing be looked after?

A Well, I would say through the jobbing, the indpeendent jobber.

Q Would that eliminate all refinery-owned service stations and leased premises and purchased premises?

A No, but they could lease those out, couldn't they? That is what they do in many instances,anyway, that is what it is coming to. I think possibly Doctor Frey who you will have here will possibly say the same thing about the United States.

Q That is, the refineries are doing that?

A Yes.

Q How is the jobbing element in a position to take care of that at the present time?

A Well, they purchase from the refinery and market through these outlets that they have leased from the other people.

Q Is there any jobbing organization in Canada that would be strong enough or big enough, or a bunch of jobbers that would be big enough to get all these service stations so far as they are necessary and various outlets. In other words, let me put it to you this way. Were not the refineries possibly forced into this marketing end because nobody else had the resources to build up the general marketing in the province?

G. A. MacKenzie

A Well, I would think - and I am speaking now - I am not familiar with other parts of Canada - but I am speaking of Alberta, that there no doubt would be sufficient jobbers to take care of that form of distribution here. Because we are not the only one. There are several responsible jobbers in this province, and are financially responsible.

Q Your view would seem to be rather that the refiner went into the marketing in order to put out other marketers rather than that they were forced into marketing by reason of there not being sufficient outlets provided by jobbers?

A Well, I do not know what that was in the early days when they started. I cannot answer that question.

Q THE CHAIRMAN: If you take the case where the refiners have nothing to do with marketing their own products, it would be entirely in the hands of the jobbers then. If the jobbers did not take their product of course they would have to go under. In short, can you imagine refiners ever so tying their hands that they could not go out and market their own goods themselves?

A Well, but you don't do that. You don't just come along and say to a jobber and say "I am in the refining business and I have some products to sell." He comes to you and he says "I figure on a certain distribution, so many gallons. Now can we get together on this proposition and handle it for a certain period of time?" He is not left at the mercy of the jobber in any way.

Q MR. COMMISSIONER LIPSETT: Supposing as the Chairman

G. A. MacKenzie

put it to you, supposing there was a refiner, a small refiner, or a refiner starting that was not able to get distribution, what would he do?

A We cover that too in a part here. I am setting all that forward when I come to that.

THE CHAIRMAN: All right, go on, Mr. MacKenzie.

A Where is it?

Q 11?

A 11. We note it was suggested by a refiner that possibly the Jobber should be eliminated. They themselves were Jobbers until a few years ago in Western Canada and presume they commenced their general business in the same manner and later erected their refineries. If a satisfactory arrangement cannot be continued between the refinery and the Jobber, we are speaking particularly of ourselves, then we are prepared to erect our own refinery, the same as that which they or others are doing, so we will be able to take care of our own distribution in that manner.

12. It has also been suggested that the Jobber only goes into points where it is favourable to him. You have a map setting for the different outlets which we have and we are no different from that of any other Company operating within this province. We take the same chances as they do.

Q THE CHAIRMAN: Where is that map, Mr. Frawley? We are always talking about a map that is not here?

MR. FRAWLEY: I am sorry. But the British American Oil Company Limited were greatly disturbed about the map as you recall and I took it down to send it away to have

the changes made, as I thought, over night, but it turned out to be a real task. Mr. Harvie only yesterday gave me the definite B. A. points as of the 20th of July.

MR. HARVIE: I have been giving them on the 10th of July and the 1st of July, and so on, but as soon as we gave him one list, he naturally wanted it brought further up to date. It has been no fault on our part.

MR. FRAWLEY: No, there is no real fault. But the B. A. are establishing these new outlets throughout the province and the thing changes. But now I am finished. We have it as of the 20th of July. We will content ourselves with that. I hope to have it back very shortly.

THE CHAIRMAN: All right.

A 13. This Company, during the last Fiscal Year, in taking the figures from the Financial Statement as prepared for us by Price Waterhouse and Company, the Salaries and Commissions paid by us to our employees and Commission Agents total $176,913.36, and the freight which we paid to truck operators amounted to $126,090.84. We have endeavored to set forth as above to show that the Jobber is aggressive and should continue to operate in the business against Companies with large capital at their command who have been in the business for half a century and none of the aggressiveness or more modern form of distribution has been created by them, but these improvements have been inaugurated, in our opinion, by the Jobber.

Q. MR. FRAWLEY: Would you mind filing the last financial statement that Price, Waterhouse did for you?

G. A. MacKenzie

A I will get that for you.

Q Oh, you have not got it with you? All right?

A No.

14. We understand at the present time in the United States, there has been considerable agitation to divorce the marketing end of the Oil business from the Pipe Lines and from the Manufacturing division which would tend to increase the competitive condition in the marketing end by being handled through the Jobber. That is on the information I have received from the people in the United States.

15. We might state for your information that this Company has not, at any time, since it has been in business, purchased one gallon of refined products from Montana. We note, however, on the freight rates as given from Montana to Calgary and in our opinion the maximum truck rate is 3¢ per gallon. Our regular contract rate when we were hauling from Coutts to Calgary was 2.80¢ per gallon.

16. We would say that the elimination of the Jobber from the Oil Industry would, in a short time, place the petroleum business in the hands of a few mighty corporations who could at will work material hardship on those who have found petroleum products to be a necessity.

17. The Independent Jobber is in a position to provide an outlet for new producers of petroleum products. Let us suppose that an oil operator, who is not connected with either the Imperial Oil or the British American Oil Company was to bring in ten or twelve new wells in Turner Valley.

G. A. MacKenzie

This oil operator would be compelled to make a deal to sell his products to one of the large refineries doing business n the field unless he had an opportunity of selling these products to an Independent Jobber. If there is an Independent Jobber operating the oil operator can instal a small refinery and the Jobber has available for him a large number of outlets for his production. If there are only Refiner-Distributors doing business the new oil operator is at the mercy of these Refiner-Distributors. Failing the making of a suitable arrangement with such Refiner-Distributors the new oil operator would have no alternative except to finance his own outlets which he may not be able to do. The existence of the Independent Jobber therefore enables the new operator to make a better deal for the sale of his production.

18. In addition, we remain available as Independent Distrib tors with a great many outlets so that if the wholesale price of the Refiners was not competitive with prices in the United States, we could, if necessary, immediately buy our productsth ere, and in that way the public are not left at the mercy of the Refiners who could otherwise fix wholesale prices at their own discretion.

19. I firmly believe that not only should the Jobber not be eliminated, but if the Refiners were prevented from going into the retail business, that the Oil Industry would be placed on a healthier competitive basis.

Q MR. HELMAN: That is the whole of your statement?

A That is the whole of it, yes.

G. A. MacKenzie

Q MR. COMMISSIONER LIPSETT: In Paragraph 17, Mr.MacKenzie, you set out that the independent jobber is able to provide an outlet for the new producer?

A Yes.

Q But take your own case at the present time. If you sold or..... You contracted for a quantity from the British American and you could not handle in any way the product of a new producer, could you?

A I think we could to a very great extent because our contract only calls for, or they agree to supply us so many gallons a year. We are not compelled to take any further gallonage than that, that they agreed to. That leaves us open then to deal with others.

Q But until you reach that gallonage, you cannot handle anybody else's product?

A We have a very much larger gallonage than what that contract calls for. I do not believe in the future we would make another contract like the one we have made, as soon as it is concluded.

Q MR. FRAWLEY: You make a point there in Paragraph 17 about the producers and you say very easily that the producer could then instal a small refinery and the jobber could market it for him?

A Yes.

Q You mean by that a little topping plant?

A No, I just mean a refinery, an average refinery. For instance, Mr. Mayland is putting up an additional cracking unit at his own place.

Q Oh, if you mean that?

G. A. MacKenzie

A And different ones. For instance, you are in a market here of an oil producing country, aren't you?

Q Yes?

A And this forces them to have outlets and a seller of that fuel. Well, if I could put up a refinery of a certain capacity and I want to manufacture my own products and re-sell them to the jobber, or something of that nature, I think it would be made easier and with more effectiveness than by saying "Here, there is not any jobbers now. If we put up a refinery, who are we going to sell to? We can sell our own products by erecting our own outlets." But how many points would they have to do that, and it would take a long time, even if you did do it. And how long would it take to get the confidence of the people? In any other condition, in the other direction, you put the whole thing in the hands of a few people. I do not care if it is Government control or what it is, it just creates a hardship on anybody. In other words, it is theoretical.

Q If a refiner is only a refiner, he is at the mercy of his jobber. He may have a lawsuit if he broke his contract but he would not have any distribution for his products?

A It has never worked that way. Technically on your point it may in theory, but not in practice it won't.

Q Let us deal with the mere physical situation. We have in this district two large refineries, two complete refineries let me say, and two complete ones going up, Mr. Mayland's and Mr. Plotkins'. When Mr. Plotkins' is finished, we will have four complete refineries, not topping plants, but four complete refineries. You know something of the market here.

Don't you think four are going to be enough to supply the refinery needs of this area?

A They do not only supply this area, but they make shipments to Saskatchewan and British Columbia.

Q Sure, and they are doing that very well, those four. But I am just wondering more on the question of duplication. Do you advocate duplication and more refineries in this area and if so, for what good purpose?

A I am saying that the sound business principle - for instance, take a company like ourselves, we took care of and you advised the Commission of the gallonage that we sold, but that is the gallonage on which we paid gasoline tax in the province. It is not all the gallonage we sold. We sold a gallonage more than that. We are making distribution into Saskatchewan and so on. But that is neither here nor there. Just the same way for instance at Leduc. You gave the illustration of our Company at Leduc. Now, I am just going away from your subject for a minute and putting a little step on there. We had a retail pump at Leduc, but you have us in as wholesale. I sat here yesterday for a while and I heard some of the arguments in reference to Leduc. I do not agree with them. I do not agree with the principle of the thing at all. For instance, these different companies that are there are people that are employed in other lines of business and they handle this more or less as a side-line. Now suppose you eliminate that down to maybe two people, you would not get the service and you would increase your cost of operation. That is my opinion. But instead of doing that you have a highly competitive condition that exists there and

really with a lower cost of operation than an increased cost. And the ordinary man gets the better service.

Q THE CHAIRMAN: There is a suggestion that the Imperial itself has a station at Leduc, as I recall the evidence of yesterday?

A Yes.

Q And it had two jobbers with stations there?

A Yes.

Q Bound to buy Imperial products?

A Yes.

Q Never known to sell at less than the Imperial price. Three outlets for the product of one company. That may advantage the company. The Imperial may be advantaged because it has got three outlets instead of one, and they get a greater volume. It may pay them, but what about the public?

A My opinion is, My Lord, that the public is getting better service. I do not think one would do it effecitvely. By having free competitive marketing, you have better service. It is not anything that these people are just in that business exclusively. They are not. Mostly all the people that are in the oil business, there are very few places in this province that their whole time is devoted to the oil business. They may be some, but very few. It is not some additional expense that is added to the industry or to the consumer. It is not.

Q MR. FRAWLEY: Where is the advantage to the consumer that the Imperial is marketing in Leduc through

its own agency and through the North Star and through the Maple Leaf. To the consumer, where is the advantage to him?

A The advantage to the consumer is this, that he gets better service.

Q It may be true?

A You know it is, and possibly these three places are Imperial and as you mentioned yesterday too that should people tell the name of where they get their stuff. Possibly the North Star agent and the other dealer, whoever he may be, who is handling the Imperial products, do not know that, and they do actually fight against one another?

Q You mean, the agent does not know?

A The agent may not know that.

Q Well, Mr. MacKenzie, I want to ask you this. You establish bulk stations wherever you think you should put them and wherever you get a license from the Provincial Department of Trade and Industry, don't you?

A If we decide on expension and decide that we would like to put in a place at a certain point, we then apply to the town to see if they will give us a license, and then we apply to the Government.

Q And the fact there is a B. A. station, your supplier, there, does not deter you at all? That is never a factor at all. You go right into that town whether the B. A. is well established or not?

A Yes.

Q And the Bell is another B. A. jobber, and whether the Bell is there or not, you go right in if you think otherwise it is good for you to go?

A Yes.

(At this stage the Hearing was adjourned until 9:00 a. m. 27th of July, 1939)

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta JULY 27th, 1939

VOLUME 109

I N D E X

VOLUME 109 - July 27th, 1939 Page

WITNESS:

E X H I B I T S

EXHIBITS (Continued)

9.00 A. M. Session
27th July, 1939

GEORGE ALEXANDER MACKENZIE,

having been recalled, examined by Mr. Helman, said:

Q Mr. MacKenzie, I think you finished your presentation but you were going to get for the Commission a balance sheet for the year 1938, I think, have you that there?

A I have.

Q That is prepared by your auditors?

A No, Price-Waterhouse.

Q MR. FRAWLEY: I offer the balance sheet of the Great West Distributors as of February 28th, 1939 and profit and loss account as at the period February 28th, 1939 and reports.

(DOCUMENTS PRODUCED HERE MARKED AS EXHIBIT "534".)

THE CHAIRMAN: What about copies, Mr. Helman?

MR. FRAWLEY: That is the balance sheet bringing us up to the last balance sheet. It is described as a balance sheet.

THE CHAIRMAN: I was just asking as to the copies.

MR. HELMAN: No, we have not any.

MR. FRAWLEY: It can be quite easily copied.

THE CHAIRMAN: For what year?

WITNESS: Well it is 14 months.

MR. FRAWLEY: It is 14 months ended February 28th, 1939?

A Yes.

Q And it is better described in the volume, it is for the 14 months ended February 28th, 1939, a profit and loss account.

C-1
2

G. A. MacKenzie

Q MR. HELMAN: It was suggested, Mr. MacKenzie, you bring a copy of your contract with the British American Oil Company?

A I have it.

Q Have you a copy or the original?

A I have both of them. This is a copy taken from the original.

MR. HELMAN: I am going to ask Your Lordship to permit us to file a copy. We may wish to have the original for reference.

THE CHAIRMAN: That is satisfactory?

MR. FRAWLEY: Yes.

(COPY OF DOCUMENT BEING AGREEMENT BETWEEN GREAT WEST DISTRIBUTORS AND B. A. OIL HERE PRODUCED AND MARKED EXHIBIT "535".)

Q MR. HELMAN: Was there anything else about which you were able to get some information?

Q MAJOR LIPSETT: Before you pass from that, Mr. Frawley, would it be desirable for us to know anything about it?

MR. FRAWLEY: I am entirely unfamiliar with the financial statements.

MAJOR LIPSETT: I mean the contract.

MR. FRAWLEY: Oh, the contract, it might be desirable to ask Mr. MacKenzie some questions about it.

THE CHAIRMAN: We can read it. Mr. Frawley will have some opportunity to read it also.

MR. HELMAN: They have always been available to him.

G. A. MacKenzie

MR. FRAWLEY: Yes, I could have asked for them.

MR. HEIMAN: What was the other thing?

A My Lord, you asked me if I could show where we did not ship or did ship below Imperial Oil prices.

Q You were going to make a list of prices?

A Yes. I have taken here regular sales slips, this is the original delivery and here is where it is signed on here, the prices, and I have listed here places sold to and the agency from which it is sold and what we sold it at and what the tank wagon price was. Now, I have listed on this, I believe, 20 different sales and so, I took places like Alix, Bow Island, Camrose, Red Deer, Taber, Vulcan, Barnwell, places from different areas and those prices at which these products were sold from our place are not the same as that which was sold by the Imperial Oil but are at a lesser price.

Q MR. FRAWLEY: Let us file something. You are first filing a document entitled "Great West Distributors Limited" and it is a record containing dates, invoice numbers, name of agency, name of purchaser, product, and then the tank wagon price at the agency, what is that 15.6?

A That is the tank wagon price and then this is the Imperial. This is the price at the agency at which we sold it; that is everybody's tank wagon price here and this is the Imperial and the B. A. tank wagon price.

Q I am trying to get a name for it, that is all, Mr. MacKenzie?

A Well, I head it there, you see.

Q I think perhaps we will have to leave it at that, it is a

document offered by Mr. MacKenzie to show that he is not following Imperial's listed prices and that is about all I can at the moment call it, Mr. Chairman.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "536")

THE CHAIRMAN: Now Mr. MacKenzie has some original slips which he is offering in support of this Exhibit "536".

MR. FRAWLEY: Yes. Now you are offering some, these are invoices are they?

A These are invoices for the goods delivered and the signatures and everything on them where we received payment.

THE CHAIRMAN: That is in support of this document Exhibit "536"?

A Yes, the actual sales and transactions which have taken places.

MR. FRAWLEY: There are 16, Mr. MacKenzie, that is 16 invoices of Great West Distributors Limited covering goods sold to various persons at various points, are they the same as the points listed here?

A They are the same.

Q They are purely to support the Exhibit "536"?

A Yes.

Q THE CHAIRMAN: We will make that Exhibit "536"(A) then. How many documents?

MR. FRAWLEY: I will count them again to be sure, 16, Mr. Chairman.

(16 INVOICES PRODUCED BY WITNESS HERE MARKED AS EXHIBIT "536" A)

Q MAJOR LIPSETT: What is "R.H." gasoline mentioned in this?

A Red Head, that is the same as the standard "Q" brand gasoline and I might mention too, My Lord, that where these slips show purple gasoline, where the refiners put out a product manufactured by the refinery, which is a tractor gasoline, which is refined by the other people, we called it that so that it would not be confusing.

MR. FRAWLEY: It is the same situation, Mr. Chairman, if Mr. MacKenzie is to be questioned at all about this I will have to have an opportunity of looking at it for a few minutes. Now Mr. MacKenzie, there were some questions I wanted to ask you, I sent Mr. Helman a copy of the questions and he advised me yesterday that he did not think you were prepared to answer them now, that you would like to answer these questions at a later date. However, I would suggest I go over them and any you are able to answer now we will take and if you must have time to answer any of them that can be put in later.

A Well, may I suggest, Mr. Frawley, I just looked over this document and I figured it is a rather important document for me to give an offhand opinion and I have just had it a few days, as you know, and I am not familiar with it and I would like to get the copy which is referred to in number 1.

Q You should have had that.

A I have none of these copies referred to in any of these places; I mean like from the Texas Company and the different things you are asking.

Q That is true, if you need, quite true, if you need any further elaboration of any of the points, any of the

references that Dr. Frey makes to the pages of the evidence?

A Yes.

Q I would think you could omit any particular reference to the pages of the Texas Company, that is what I intended to do in running over them with you, I think we can make some progress and certainly Mr. MacKenzie ----

THE CHAIRMAN: If the witness feels he should not start at all until he has really considered this questionnaire, I think probably it would be more satisfactory to him and perhaps to us because we do not want unconsidered answers.

MR. FRAWLEY: No, that is quite true.

THE CHAIRMAN: We can deal with it when Mr. MacKenzie comes back.

MR. FRAWLEY: I would like if it could be fitted in, I would like this within the next ten days.

WITNESS: I am prepared to do that.

MR. FRAWLEY: I do not want any idea of any long time.

A No, I do not want that, but would you send me then a copy of what these other questions are.

MR. FRAWLEY: Yes, I will try to give you more explicit references of what the record is.

THE CHAIRMAN: I think you had better say next Thursday morning so there will be no question but what we will be through next week in case, - and I fix that time, Mr. MacKenzie, in case we should decide to discontinue public hearings for a period of time at the next week end. I do not know that we will but if you could so arrange that will give you ample time.

A That is plenty of time so long as I can get these other documents.

THE CHAIRMAN: And you will give Mr. MacKenzie what he requires.

MR. FRAWLEY: Yes.

THE CHAIRMAN: That will suit you, Mr. Frawley?

MR. FRAWLEY: Oh, yes. I think any questions I want to ask him on the B. A. Contract will have to stand until that time also, as well as Exhibit "536" just filed because it will take me some time in order that I may ask any intelligent questions about it, so I think it should all stand.

THE CHAIRMAN: Any further questions, Mr. Helman, or anything else you wish?

MR. HELMAN: No.

THE CHAIRMAN: Have you not something showing Mr. MacKenzie's volume?

MR. FRAWLEY: Oh yes. Now of course, Mr. MacKenzie you mentioned something yesterday which is perfectly obvious --

THE CHAIRMAN: That we want to know is the extent to which Mr. MacKenzie may be said to be a free agent in the matter of buying.

MR. FRAWLEY: Yes, yes.

THE CHAIRMAN: That is to say what his sales have been to justify the belief that they will be so much, so that may be compared with what he is bound to buy under the B. A. contract at a price?

MR. FRAWLEY: I see the point exactly. Will you point to the place in the contract which refers to the

amount of gallonage which you must buy from the British American and beyond which you are free to buy wherever you choose?

A Well now ---

THE CHAIRMAN: I thought that might well be postponed until you had read the contract?

MR. FRAWLEY: Oh, I thought you wanted it now.

THE CHAIRMAN: No.

MR. FRAWLEY: That is a point in getting the contract and I will see that that is developed.

THE CHAIRMAN: And then we have some 16 places that on given dates there were sales below the tank wagon price.

MR. FRAWLEY: The going tank wagon price.

THE CHAIRMAN: The going tank wagon price, set by the major companies.

MR. FRAWLEY: So Mr. MacKenzie says.

THE CHAIRMAN: Yes, and I suggest to Mr. MacKenzie now that when you return, in the meantime you give consideration to anything over and above these 16 isolated sales which serve to show that you are really competing, I mean to say you might get 16 sales in an afternoon where you were under bulk tank wagon but I am talking about the general thing which shows that you play a general part in the truly competitive field and not just an arm of the British American.

WITNESS: I will be pleased to do that. For instance, this is at Alix, that is Mirror that that

was sold to and at Bashaw, and at Winnifred and at Bawlf and so on, these different places you see as actual points which will be shown on those slips.

Q Quite so.

A To which deliveries are made but as I mentioned to you yesterday on this, I am sure I can show you plenty of additional ones.

THE CHAIRMAN: You see what I have in mind, Mr. MacKenzie, is to show that the consumer is getting some benefit out of your operation.

A That is right.

Q You have shown where perhaps he gets indirect benefit when the railways do this and that and so on?

A Yes.

Q But unless it is shown to have a reaction favorable to the consumer, it merely means that somebody is making more money for themselves and the railways less; I have no doubt that the Government, when instituting this inquiry, was concerned with determining what, if anything, could be done that would serve to assist the ultimate consumer; I fancy that was in their minds; now in the end it may be that we will conclude that the consumer is doing better than he should?

A Yes.

Q We are in no wise bound by aims or ambitions of that character but if the jobber can show that he is playing a part as a true competitor it would be of interest to us to know it.

A Yes.

Q Now you made some effort to show the useful purpose which the jobber serves; I suggest, bearing in minde the consumer,

while you have the time, you might consider that and if you have anything to add we will be glad to hear it.

A Well, pardon me, My Lord, I believe you talked about the gallonage; the only gallonage shown I believe was the taxable gallonage which we pay but I myself have my connection with the other companies and which we supplied additional gallonage to, that they are licensed by the Government to collect the tax, which should be added to our gallonage and as a matter of fact our gallonage is a larger gallonage than that which is shown.

THE CHAIRMAN: Anything you care to add we will be glad to hear.

Q MR. FRAWLEY: Exhibit "456", Mr. MacKenzie, is a very complete attempt to show the amount of gallonage you are entitled to and Mr. Appleton has gone to the trouble of showing the total sales and then deducting the sales to the Dominion Government which are not taxable, the cleaning fluid which is not taxable, the coal oil and heavy fuel and then he arrives at the taxable sales and those should contain every gallon of what you handled, and I would like you very much to be satisfied that we have shown everything, I would like you to look at Exhibit "456" at your leisure and discuss it when you come back and say whether it does not correctly reflect all, to a fraction of a gallon, all that you sold?

A May I have a copy of this?

Q Yes, I will give you that.

A You see our gallonage is much larger.

Q Your Saskatchewan gallonage, we are not concerned with;

we are concerned with it but it is not in anything which has been filed. Now the Commission would doubtless like to know what your combined gallonage in both provinces is.

THE CHAIRMAN: Does that contract cover both provinces?

A It does.

Q MR. FRAWLEY: Yes, the contract covers both provinces. Well we will discuss the thing fully when you come back. You were making quite a point yesterday of the value of the economies which might be gained by the operation of your system of marketing, that is the combination outlets served by trucks and you seemed to be referring to that kind of operation as the place where the jobber could best serve but Mr. MacKenzie, I suppose the Imperial Oil Company could, tomorrow, duplicate not in location but I mean duplicate precisely your present system of marketing?

A They could if they wanted to.

Q They could up until the other day ----

THE CHAIRMAN: I did not understand that to be Mr. MacKenzie's point. As I appreciated his point it is that we market in a certain way with trucks ---

MR. FRAWLEY: Yes.

THE CHAIRMAN: True, everybody else in the industry may follow us and some of them have but as an example of the benefits of having an independent jobber who is zealous in seeking ways of marketing which are cheaper, we have brought this about; others may follow but the jobber has played his part in that he has developed in this country a new and efficient method of marketing

which now others are emulating; that is your point, Mr. MacKenzie?

A Quite.

Q And even so, you leave the jobber alone and he will find other ways and means of improving the industry.

MR. FRAWLEY: Yes, I understand. I see now.

THE CHAIRMAN: If Mr. MacKenzie could have added to that something that gave an assurance that having developed something more efficient, something better suited to serve the needs of the Oil Industry in the matter of marketing, that the public had gained a fraction of a cent it would have been tremendously important.

MR. FRAWLEY: Yes, quite so.

THE CHAIRMAN: The point is well taken.

MR. FRAWLEY: I see now the implication in Mr. MacKenzie's point ----

THE CHAIRMAN: That was your point, Mr. MacKenzie?

A Yes.

MR. FRAWLEY: Not speaking at all facetiously then, Mr. MacKenzie says that his operation is a sort of school for the better marketers, it is just passing through my mind, of course it is a terribly expensive sort of thing if he is just showing the other marketers how to do it and that all jobbers must be kept only for that purpose.

THE CHAIRMAN: He gives that but as an illustration of the large usefulness which is "ours in that in all phases we have got to be keen and alive to survive. We are creating competition where everybody has to be on their toes to be

more efficient and more economical and that is good for the Oil Undustry as a whole" and of course it is, and then the next question is, is it also good for those people who make the Oil Industry possible by buying their products and that is what Mr. MacKenzie is still going to develop.

MAJOR LIPSETT: I suppose, Mr. MacKenzie, you make the point even a little further by saying that if your system or your organization were now eliminated that that might eliminate all trucking competition as regards freight and these new rail agreements which were accepted by the Imperial and the British American ----

A I would say it would, where they have their railway storage tanks, you would go back to the old obsolete manner of handling products in that manner.

Q It would eliminate competition in the rail freights system?

A Yes.

THE CHAIRMAN: Even so because "on the freight rates, we are able to market more cheaply and I brought it about and whether or not it is or is not a beneficial effect for the general public, it should be." Mr. MacKenzie does not perhaps say it should, he may say, "we who are in the oil business should make more money" but it is conceivable this may help the public.

MR. FRAWLEY: I am only probably, Mr. Chairman, only pursuing it half way because as I put it to Mr. MacKenzie yesterday, let us assume Mr. MacKenzie has established the point that it is a better system, quicker turnover, even better products to the consumer and everything, then, the big question is wherein is it reflected in the consumer price.

G. A. MacKenzie

MR. HELMAN: I was going to suggest to Your Lordship an example where it was reflected in the price obtained right now, the railway companies are reducing their railway rates and the two major companies are now stating they are going to reduce their wholesale prices. You see, there is always an inter-play of economic forces which we cannot separate very readily but here is an actual illustration, we start trucking, the railway companies come down in their freight rates and the major companies come down in their wholesale prices of their gasoline. While we sell at the same price that they do still there is the point where the inter-locking of economic forces is brought about, just by reason of this competition.

THE CHAIRMAN: A perfectly fair argument.

(Go to Page 12,264)

THE CHAIRMAN: That is a perfectly fair argument. You go on and say that the consumer price dropped?

MR. HELMAN: Yes, I think they ultimately will.

MR. FRAWLEY: Mr. Nolan will file just as soon as he gets some other instructions from Toronto this list.

MR. NOLAN: I have been asked by Mr. Frawley to get a statement from my principals as to the reasons for this reduction. I think we should await that statement before we assume that it is because of the reduction in the freight rate, because there is no reduction in the freight rate yet.

THE CHAIRMAN: We are not assuming anything, Mr. Nolan. I just said Mr. Helman's argument was a fair one. It is a fair argument founded on fact.

MR. NOLAN: Yes, quite true.

MR. COMMISSIONER LIPSETT: I thought the reduction in the freight rate had already gone into force.

MR. NOLAN: There is an agreement entered into between these two named companies and the railway companies, which agreement must receive the approval of the Board of Transport Commissioners before it becomes effective.

MR. FRAWLEY: It is only fair to say there will be a lot of, and there is already a movement on foot to protest against the approval by the Transport Board of the new local freight rates by the Alberta Motor Transport Association or some trucking agency. Quite. There are many strong representations to the Provincial

Departments now.

MR. COMMISSIONER LIPSETT: Was it the 15th of July they came in?

MR. FRAWLEY: The 15th of August I think. But Mr. Halvorson, in anticipation of being successful in having hie new rates approved, has already prepared, and I have in my hand, the Imperial Oil Company's posted tank waggon price.

THE CHAIRMAN: Mr. Nolan does not accept that. He said the reduction of prices approved by the Imperial Oil may or may not be related to freight rate treductions.

MR. FRAWLEY: Yes, I must withdraw that. However that may be, the Imperial has prepared new posted tank waggon prices that I am only deferring filing so that Mr. Nolan may make a statement on the posted tank waggon price.

THE CHAIRMAN: Is there anything more from Mr. MacKenzie?

MR. FRAWLEY: No.

MR. HELMAN: We will be back Thursday morning and if there is anything further Commission Counsel want to ask, I wish he would let us have a note of it so it will save time.

MR. FRAWLEY: I will try and keep that in mind among the many other things I have to remember.

THE CHAIRMAN: Mr. Frawley has many things to keep in mind.

MR. FRAWLEY: Yes. The Mayland Company, The Gas & Oil Products, was to be here at half past nine. Perhaps if we adjourn for a few minutes.

H. B. Scrimgeour.

THE CHAIRMAN: Yes, let us know. The Transport Board, did you say?

MR. FRAWLEY: Yes, the Transport Board.

MR. NOLAN: The Board of Transport Commissioners.

MR. FRAWLEY: The Board of Transport Commissioners to Canada.

MR. NOLAN: That is the old Board of Railway Commissioners under a new name.

THE CHAIRMAN: The Board of Transport Commissioners to Canada?

MR. NOLAN: Yes, they exercise precisely the same power, I take it.

THE CHAIRMAN: They were enlarged to cover air and trucks and so on.

MR. NOLAN: Yes, but they are the same as the old Board of Railway Commissioners with these added powers.

THE CHAIRMAN: Yes. Well, you will let us know, Mr. Frawley?

MR. FRAWLEY: Yes, I will.

(At this time there was a short recess.)

.....

HENRY B. SCRIMGEOUR, recalled:

Q BY MR. FRAWLEY: Now, Mr. Scrimgeour, it was the 17th of May when you were here last and at that time we left your submission unfinished. At that time you said you would undertake to ascertain for the Commission if you could the cost of a gallon of gasoline as against a gallon of some other product?

A Yes, that is so.

Q Probably you are prepared to go on and make such statement

as you can about that?

A I have four copies here of the statement that I prepared.

Q I will file that. Mr. Scrimgeour produces a number of statements, can they all be described as in one phrase? Mr. Scrimgeour?

A Yes, I am just wondering what we could call these. What do I head that?

Q Analysis of Revenue Account is the first sheet, and Reconciliation of Inventories is the second.

A Would you call it this, "Analysis of Revenue Account", the schedules are all part of the same thing.

Q "Analysis of Revenue Account for the Year 1938 and Accompanying Schedules"?

A Yes.

(DOCUMENTS IN QUESTION ARE NOW MARKED EXHIBIT "537".)

Q Now, you have something else?

A Another statement, which I call the Price Structure for 1938.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "538".)

Q Now, if you will just explain in your own words what these statements are and what they are submitted to show?

A Our company has already submitted, Mr. Chairman, an analysis of our revenue account divided under, I think, three headings; Motor Fuels, Lubricating Oils and Greases, and at the request of the Commission I have made a further analysis of our motor fuels, which is Exhibit No. "537" submitted herewith. Under five headings. White Gasoline, Miracle and Ethyl, Casing Head, Distillates and Naphtha. The first column of this Exhibit is the total already shown on the previous statements, and to the

right are the divisions under which I have divided up the costs of the different products, bringing down the net profit and the average sale price for those particular products. Should I go through, Mr. Frawley, on that, with each of the statements?

THE CHAIRMAN: Do you see any purpose in having that all read?

MR. FRAWLEY: No, I see no purpose.

THE CHAIRMAN: If there is anything special to ask about, all right.

Q MR. FRAWLEY: Mr. Cottle suggests you do no more than make such references as will serve to bring out the points you want to make?

A All right. If you remember, Mr. Chairman, my last evidence, the question of distributing costs came up and I offered to submit to the Commission two methods that are used in ordinary practice, one known as the sales realization method and the other was the by-products method. Attached is a schedule to this Exhibit-----

THE CHAIRMAN: That is very interesting.

A As to how that is done. Schedule B, if you will refer to it, that is what we call the apportionment of costs under the sales realization method.

Q Yes?

A I can roughly run through and show how we have used that.

Q Please. I would like it explained.

A Our products manufactured for the year 1936 consisted of white gasoline, 4,852,993 gallons; Casing head, 1,088,216 gallons; Distillates, 1,020,440 gallons,and naphtha, 522,164 gallons. Taking the proportion in percentage means

that we recovered, 64.85% on white gasoline; 14.54 casing head, 13.64 on distillates and 6.97 on naphtha. Now, then, I took our selling price for those products and divided it by the gallonage, which gives me the average selling price on white gasoline of 10.25 cents; Casing head was 8.09 cents; Distillates, 9.91 cents, and Naphtha 8.90 cents. Then I take the recoveries from the figures and then I multiply the selling price by the recoveries, which gives me a factor as shown in the fourth column from the left, called "Selling price multiplied by Recovery", which gives me a proportionment of the cost for white gasoline of 70.52%, Casing head, 12.48%, Distillates, 10.42% and Naphtha 6.58%. Then our total costs in money as already submitted to the Commission were $303,165.21 . So proportioning the costs according to these percentages, I arrived at the following figure. White gasoline, the cost was 7.3116 cents per gallon; Casing head, the cost was 5.7704 cents per gallon, Distillates, 5.1379 cents per gallon and Naphtha 6.3405 cents per gallon. And these figures have been used in my schedule in order to arrive at the manufacturing costs of the different products which are analyzed in this particular statement.

Q MR. COMMISSIONER LIPSETT: Those costs, I suppose, included depreciation but no return on capital at all?

A No return on capital, Mr. Commissioner. But the regular depreciation allowed by the Dominion Income Tax is charged into manufacturing account. Now, turning back to the front page again, without going through the different

H. B. Scrimgeour.

details, you will notice that this statement starts off with the opening inventories of each of the products, the manufacturing costs as distributed according to this statement I have just referred to, and the amount of goods purchased. Then we deduct the inventories which brings us down to the cost of the goods sold and we take the selling price, which is Schedule C, and which gives us a gross profit on these particular items. Then below I have the different overhead expenses, administration and selling expense, which are itemized, and they in turn are proportioned over the different products according to, in some cases according to the gallonage that was sold at this particular point, and in other cases according to the exact analysis of my books in order to distribute it over these different products. Which brings me down to the final figures, which I think we are all interested in. On our white gasoline we made, of our total of $41,000.00, we only made $13,000.00 on white gasoline, equal to .3024 cents or one-third of a cent per gallon. On our Miracle and Ethyl, which we did not manufacture but we purchased and resold, we made .8799 cents per gallon. On casing head we only made .0209 per gallon. On distillates we made a little more because the cost under the sales realization method is low, for two reasons. One is that the recovery is low and also that the selling price is much less than the other. Consequently, the factor I used is the lowest of all the products. We made 2.8408 on distillates, and on naphtha .2165 cents. And these figures, Mr. Commissioner, tie in with the balance sheet that Mr. Ireland already submitted. In other words, should I have erred in charging up to one product too much

of my cost then the other products will have got the benefit. The answer cannot deviate from this total of $41,000.00. That is using what we call the sales realization method, Now, Exhibit No. "538".

Q MR. COMMISSIONER LIPSETT: What is the last line on that page 1?

A The last line, I have called that Profit in Percentage of Sales. Most businesses figure out not so much per unit which they make but what profit in percentage of their sales do they make. So I thought it would be interesting for the Commission to have that. In other words, of our total, of every dollar,- put it this way - of products that we sold, 5.67 cents was profit. That is on the average, dividing it under different products, on our white gasoline only 2.95 cents was profit out of every dollar. Miracle and Ethyl gasoline, we made 5.67 cents out of every dollar. Casing head, we only made a quarter of a cent out of every dollar, and on Distillates we happened to make a little more. We made 28.65 cents on distillates, and 2.43 cents on naphtha. I thought that would be interesting to the Commission to see the percentages.

THE CHAIRMAN: Cents on every dollar of sales?

A Yes, that is what that figure represents.

Q THE CHAIRMAN: Yes?

A If you will refer to Exhibit No. "538", the smaller one, and take the second sheet of it, I have there our manufacturing cost for white gasoline only, which is our main product costed under what is known as the by-products method. I can run through and just show roughly how I arrived at these figures. We start off with our opening inventory, with

our amount manufactured, and our amount purchased, and then we deduct the inventory in order to arrive at the cost of the goods sold during the year, because the cost of the goods sold is not the same as the cost of the goods manufactured. Your opening and closing inventories have to be adjusted in order to arrive at that figure. I deduct from that the by-products which we sold and down below we have a list of the by-products, totalling $279,233.24. I take the value of those by-products, which we sold, and deduct that from the total costs, which makes me sure of the net cost for our main products, which came to $247,787.51, and dividing that by the number of gallons gives me a cost price of 5.7088 cents per gallon. Now, I reconcile that, if you notice, at the bottom, with the statement already submitted, Exhibit No. "537". At the bottom of the sheet I show the cost of the goods sold as arrived at by the by-product method, the amount of sales, the difference there being the gross profit and the amount of expenses as shown on the previous statement, which brings me back to my $41,000.00, which ties in with the other statement. And with these two Exhibits I think that is all I have to submit. I will be glad to answer any questions if I can in connection with that.

Q THE CHAIRMAN: Do you have any jobbers selling your products?

A Yes, Sir. We have, I think most of the jobbers in the Province are on our customers list.

Q Under contract or just buying as they may require it?

A As they may require it. There are verbal arrangements

entered into between us and them.

Q But they are not tied up?

A They are not tied up by a written contract.

THE CHAIRMAN: Mr. Jones speaks on marketing, doesn't he?

MR. FRAWLEY: Yes.

Q Just to follow up what the Chairman was asking you, to get it on the record; an analysis of your sales for tax purposes last year showed that you sold, as you say, to quite a few people. You sold a small amount to Canadian Oil Companies Limited, 48,980 gallons. That would be sold tax free, of course?

A Yes.

Q That would be some 3rd structure gasoline probably, would it, distillate?

A It is a little hard to remember, Mr. Frawley.

Q Great West Distributors bought 682,269 gallons. In the case of the Great West Distributors buying from you, would that be just something to fill in his requirements from time to time?

A No, I think that is-----

Q He is under contract to the B. A.?

A No. That is a very large portion of his total sales, I think.

Q What would that be. Well, no, his total sales were close to 5 millions, well over 4 millions?

A And what was our amount?

Q Just 682,269 gallons.

A Yes, probably that particular year we did not supply quite so much.

Q Associated Jobbers in Edmonton bought 405,342 gallons?

H. B. Scrimgeour.

A Yes, that would be correct.

Q They are a regular customer of yours?

A Yes, they are really a subsidiary company. We have since bought them out.

Q You have since bought them out. I need not go through all these customers, of course, If Mr. Jones can speak as to the prices charged these people?

A Yes, he can answer that much better than I could.

Q Now, with regard to this financial statement-----

Q MR. COTTLE: Mr. Scrimgeour, summarizing what you have said concerning your two methods of arriving at costs, Exhibit "538", the first page, summarizes the difference in result between the by-product method and the sales realization method, does it not?

A Yes, that is so, Mr. Cottle. I did not bring that to the attention of the Commission.

Q The first column on the first page of Exhibit "538" shows the final result of costing white gasoline on the by-product method, whereas the second column shows the result given on Exhibit "537" of costing all products on the sales realization method?

A Yes.

Q Would it be fair to say that the net difference between the two methods is that on the by-product method all of the profit is deemed to have been realized from the sale of white gasoline?

A That is correct.

Q And that the cost of all the products manufactured and sold is exactly equivalent to what you got for the products?

A Yes, it is the exact figure.

H. B. Scrimgeour.

Q Whereas the sales realization method summarized on Exhibit "537" results in apportioning the total profit among all of the products?

A Yes, that is so. In other words, the by-product method assumes that we made no profit on anything but white gasoline. That our distillate and naphtha and our casing head was simply sold at cost price and that we made no profit on it, which I think is an incorrect assumption because we feel sure that we did make a profit on those particular items.

Q THE CHAIRMAN: You say those are the only two known methods of approach?

A Yes.

Q Of which you approve?

A Yes, of which I am aware.

Q And of the two you think the sales realization method is the more accurate?

A Yes. May I say in practice, Sir, that we do not cost each individual product each month. I take our average cost of manufacturing and I take our average cost of selling and I take our overhead expenses and by putting them together I can tell at a glance whether we have made a profit or a loss without trying to distribute it over different products. After all, we are not interested in whether we made more money on this or that particular product because we cannot change the proportion of recovery. If we made more profit, let me say, on distillates, we could not change our methods to make all distillates. In other words, our recovery is more or less fixed. And I submit that the sales realization method

is the fairest way of arbitrarily apportioning the cost of refining.

MR. FRAWLEY: That is all, Mr. Chairman. There was nothing else Mr. Scrimgeour was to do for us and I think there cannot be any further examination of him at this time.

THE CHAIRMAN: Is Mr. Hayland coming back or not?

MR. FRAWLEY: There was no plan----

THE CHAIRMAN: Does Mr. Scrimgeour speak as to such matters as field price and so on?

MR. FRAWLEY: Oh, no. We might ask him something about that.

THE CHAIRMAN: After all, here is a well known refinery. We pursued this at great length with the two major companies and I want to hear the view of Gas & Oil Products.

MR. FRAWLEY: As Mr. Nolan said, Mr. Hayland did give some answer about that.

THE CHAIRMAN: Mr. Hayland said the producers would be all right if they got $1.00 a barrel, but I do not recall his entering upon a discussion of the field price. Perhaps he did. It is so long since he did, and I have not the note-book that covers his evidence up here. Well, at any rate, it would be an interesting thing to know what Mr. Scrimgeour has to say. If Mr. Hayland has not spoken about these other matters he should be called again.

Q MR. FRAWLEY: In Exhibit "259" that you filed when you were here before, that is your manufacturing

account for 1938, it shows the cost of the products consumed?

A Yes.

Q Exhibit "259", and you show the total cost of crude and naphtha consumed was $267,059.67, and the average per gallon of 3.5685 cents, 1938. And you also show the average per gallon in 1937?

A For the previous year.

Q 2.4833 cents. Now, where do you get that figure of $267,059.67?

A That is the actual cost to us of crude purchased for the refinery.

Q Now, that shows the cost of what you bought from producers?

A Yes.

Q And did you pay the field price?

A Yes, we paid the field price. In some cases we paid a small bonus for a particular naphtha from a particular well. But the field price, I think I am correct in saying, practically all the way through.

Q The posted field price?

A Yes, the posted field price.

Q The field price posted by the Imperial ?

A Yes.

Q THE CHAIRMAN: Do you concern yourselves with how that is arrived at?

A Well, in my particular job, Sir, no. I get the invoices, and as long as I find the quantity is correct and the price correct, as far as my department is concerned I am through.

Q MR. FRAMEY: We had better analyze that a

little more closely. Do you purchase direct from the producing companies or through an intermediate company?

A We purchase for office routine through an intermediate company.

Q That is called what?

A Called the U. P. Oil Company.

Q Is that purely for office routine. If it was for something more material there would be nothing wrong about it. Is it for the purpose of showing the profit that the intermediate company made?

A I have never had access to the records of the U. P. Company and I cannot answer that question, Mr. Frawley. But from my end of it I know it is done for office record purposes in the payment of royalties, sales tax, accounting to the Government, and all these things. If all these different companies were selling to Gas & Oil Products it would mean quite an organizatinn to keep track of it, whereas one company purchasing and reselling to the refinery and one invoice for my total runs for the month, and you get your invoice, that is Gas & Oil Products-----

THE CHAIRMAN: What is the name of the company?

MR. FRAWLEY: The U. P. Oil Company Limited.

A It is not limited.

THE CHAIRMAN: It is not a limited company?

MR. FRAWLEY: No, it is not a limited company. It is a partnership. Or is it?

A Yes, it is a partnership.

Q I will ask you something about that in a moment. Your company gets its invoices from the U. P. Company?

A From the U. P. Company, yes.

Q And these are always shown to you, invoices at the posted field price?

A At the posted field price.

Q Whether or not the U. P. Oil Company pays the posted field price you are not in a position to know?

A I am not in a position to answer.

Q Who keeps the records of that company, Mr. Kemp?

A Mr. Kemp.

Q Mr. Kemp is the Secretary of that company?

A Yes.

Q And keeps such records as are kept, he keeps them himself?

A Yes.

Q You do not know then even from whom, apart from the price Mr. Kemp's company pays, you do not know from whom he purchases?

A No, except office knowledge.

Q That is what you hear?

A Yes.

Q I think we had better have Mr. Kemp. You say then, as far as you are concerned, your laid in cost of crude is just the same, let us say, as the Imperial Oil Company's. We have had theirs and theirs is just the posted field price?

A Yes.

Q Now, in your case that is the posted field price plus what additional charges?

A No additional charges.

Q How about transportation?

A The crude lines are all laid in and the crude lines are all paid for by Gas & Oil Products.

Q Then that means that you are buying only from certain wells which have direct connection with your refinery?

A Yes.

Q So that you do not use, certainly insofar as at this time, at the time these figures were made up, you did not use the Royalite Company's pipe line?

A No.

Q So that there is no transportation charge shown as such?

A No.

Q You say you simply get the invoices at the posted field price?

A Yes.

Q There must be some carriage. What happens to such carriage as there is. Who pays for that?

A Well, we paid for the cost of the crude lines. We are paying the wages of the men who are guaging.

Q Oh, is that shown in your manufacturing cost?

A That is shown in our manufacturing cost.

(Page 12,281 follows.)

C2
1

Q And is the amount of capital, is the amortization of the capital invested in these crude lines shown in the manufacturing,costs?

A Shown in the manufacturing costs.

Q It is included, Mr. Cottle calls my attention to it, in Exhibit "259", it is included in the operating expense item, wages and salaries, repairs and upkeep?

A Yes.

Q It is all in there?

A Yes.

Q That next item, field expense item, I suppose would be wholly,and depreciation of $84,909, in 1938----

A All included in the manufacturing cost.

Q THE CHAIRMAN: Is it part of your duty to see that the price charged you by the U. P. Oil Company for the raw products is in line with the posted field price?

A Oh yes, that is checked absolutely every month.

Q MR. FRAWLEY: So long as the U. P. Oil Company is not charging you any more than the field price, you accept the invoices and pay them?

A Yes, and the opposite, if it is any less I have to correct it.

Q You would not be able to explore very far the propriety of the field price?

A No, it is outside of my scope entirely.

Q THE CHAIRMAN: Who in your company would

be able to speak as to field price?

A I think Mr. Jones could give you some interesting information. He has usually been consulted in connection with most of the deals which we have made.

Q MR. FRAWLEY: And Mr. Kemp?

A And Mr. Kemp?

Q And Mr. Mayland?

A And Mr. Mayland.

Q MAJOR LIPSETT: Do you have to pay anything extra over the field price that the U. P. Oil Company pay for some of these special crudes?

A Yes, I mention that just now. I will give you an exact example, the Hylo Oil have a naphtha that suits our requirements and we give them a small bonus on that but that is purchased direct by the Gas and Oil Products from the Hylo. It is only a small quantity.

Q On the other hand if there happens to be any distress oil or any oil that the U..P. Oil can buy at less than the field price you do not get the benefit of that?

A No, we would simply pay the field price.

Q The U. P. Oil would get that?

A I presume they would get that difference.

Q Have you any figures at all about instances where they buy any oil at less?

A No, it would not be my department. I would not know

about that at all.

Q That would have to come from the U. P. Oil Company?

A Yes, Mr. Kemp or Mr. Mayland.

Q MR. FRAWLEY: Is your company still buying your oil from the U. P. Oil Company?

A Yes, right at this moment.

Q And you are, the oil is still coming by means of crude lines which the Gas and Oil Products laid and paid for?

A Yes.

Q Well do you not contemplate in your 1939 program to be using the Royalite pipeline?

A Yes, we have already used the Royalite Oil.

Q Well to what extent and how?

A Well that, as I say, is the U. P. transaction again and it is only office information that I just happened to pick up.

Q There is an application, your company made an application to the Board of Public Utility Commissioners, this Board will be interested in this, to have a separate charge fixed by the Public Utilities Board for trunk line transportation alone, eliminating, on the proposition that your company does not require the gathering part of the Royalite system and they seek to escape a portion of the 9½ cents?

A True.

Q MAJOR LIPSETT: You do not get any oil from the Royalite system for your own camp in Turner Valley?

A Yes, we have a little, I forget, which month it was -

Mr. Jones can advise me which month.

MR. JONES: May and June.

Q MAJOR LIPSETT: How is that taken to your plant?

A How is that, your question.

Q How is that Royalite oil delivered at your plant in Turner Valley?

A MR. JONES: Through our own plant.

WITNESS: You will have to ask Mr. Jones. I am not familiar, Mr. Commissioner, with a lot of the field operations. My time is pretty well taken up without going into a lot of those.

MR. FRAWLEY: Thank you, Mr. Scrimgeour then, I will call Mr. Jones.

Q THE CHAIRMAN: What is the name of that subsidiary?

A The U. P.

Q No, the one you took over?

A Associated Distributors, Limited.

MR. FRAWLEY: Of Edmonton.

::::::::

WALTER H. JONES, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Jones, you are the Sales Manager of Gas and Oil Products, Limited?

A That is correct, Mr. Frawley.

Q Your company operates a refinery and marketing business in petroleum products in the Province of Alberta and Saskatchewan?

A That is correct.

Q Now I would like you to make any general statement of your own kind you care to make and then answer some questions for me?

A Mr. Commissioners, I have not had very much time to prepare any brief but I have made a few notes and will give you that and then if there are any questions I will answer for Mr. Frawley or yourselves, I will be very glad to do it;

Our company commenced refining in Turner Valley in the early part of November, 1934. At that time we had no set-up whatsoever. As a matter of fact I was not with the company at that time, I did not start with them until August of 1935 but at that time we then had six owned outlets of our own. Since that time and to-date we now have approximately 25 very similar outlets. We commonly call them combination wholesale and retail service stations.

Now at the time our company commenced marketing gasoline prices were much higher than they are today and I believe that at the time Mr. Mayland's company came into being they were instrumental in bringing about a reduction of, I believe, 3 cents per gallon on third structure gasoline in the City of Calgary and since that particular time prices have gradually gone down.

Now there has been a lot said about the jobber business by the former witnesses. My opinion in regard to jobber business is that we should have it or in other words have the jobbers, as I feel that these are the only accounts that can be in-

strumental in keeping the major oil companies in their place insofar as prices are concerned. I do not think---

Q THE CHAIRMAN: Do you think that the jobbers that are tied up by contract with the major companies serve to assist to that end?

A Well I would not say particularly the jobbers tied up by the major oil companies. I believe that any jobber business, whether it is tied up or not, should exist because after all they are the ones that more or less keep the major oil companies in their place so far as prices are concerned.

Q Let us say that the Imperial, when we are speaking of major companies, has five jobbers, tied to them for a year, how do they keep the Imperial in line during that year; they cannot go and buy from you?

A Well no, that is why I mentioned to you, I would say jobbers outside of those are under contract as well would be included but when you refer to those five jobbers are you referring to companies like the North Star, The Canadian, the Union and so on.

Q Yes, any one you like, I say how are the major companies kept in line by jobbers that are bound to buy all their products at the prices provided for in the contract?

A Well I would not classify those companies as jobbers.

Q No?

A I would classify them more or less as dummy set-ups.

Q They are just marketing agencies for the major companies?

A That is it, probably to keep other companies out or different ones into line.

Q You say that the true jobber is one who is free to buy

A/ That is it. I would say companies like, well the Great West Distributors or the Artic Oil, where they are absolutely independent jobbers handling their own affairs and not dictated to or following the policy of the major oil companies.

MR. NOLAN: Mr. Chairman, it has been suggested to me by Commission Counsel that it should be ascertained what is the contractual relationship, if any, between the Imperial Oil and these people who act as jobbers for it, whether it is on a contractual basis at all and if so what are the terms of the contract. I am not talking about the Maple Leaf Company, that is in a different position, and I have no memory at the moment about what the North Star said as to its relationship with the Imperial Oil. I was trying to think whether Mr. Clayton had told us whether or not-----

THE CHAIRMAN: Unfortunately I have changed my note book. I finished the last one and I have not got it here.

MR. FRAWLEY: No, but Mr. Halverson in Exhibit "316", where he dealt separately with jobbers, he says:

> "Most of the jobbers that purchase from us in "Alberta purchase from us elsewhere in Canada "and we have to keep this in mind in making "quotations. Prices to jobbers are established "by letter from the refinery sales department "and are subject to change at any time, with the

"exception that supply arrangements with McColl-
"Frontenac Oil Company are covered by contract
"which runs to June 30th, 1939. Buying in volume
"as they do, jobbers are likely to make other ar-
"rangements if our prices are not satisfactory."

THE CHAIRMAN: Which would indicate that they are not tied.

MR. FRAWLEY: Yes, it would indicate they were not tied by contract.

THE CHAIRMAN: Yes. Mr. Nolan, it might be of interest if you could get that information if it has not already been given.

MR. NOLAN: Yes, certainly I would be glad to get it and if it is given, I do not think it is given in such a form that it fixes it in my memory in any event.

THE CHAIRMAN: No, it is not in my mind either.

MR. FRAWLEY: I think it would be well to have a separate statement on that point, Mr. Nolan.

MR. NOLAN: Yes.

THE CHAIRMAN: Do you think it would be possible to get it, Mr. Nolan, so that we would have it before we rise.

MR. NOLAN: Oh certainly, I mean I will get it by telegram or air mail. I can have it on Monday morning.

MR. FRAWLEY: Yes, on Monday morning.

THE CHAIRMAN: It might be something that

we, as Commissioners, might be thinking about when the public hearing was not being had and if it could be gotten in time for that----

MR. NOLAN: Yes, I will send a telegram right away sir, today.

THE CHAIRMAN: Thank you.

Q MR. FRANLEY: Yes?

A Now going back to our own different methods, we handle all of our goods from Turner Valley----

Q THE CHAIRMAN: Mr. Jones, before you pass from the jobbers, your views are interesting. Now you say an independent jobber such as the MacKenzie Company and the Artic Oils, you can see where they serve a useful purpose in keeping the major companies in line?

A Yes.

Q I suppose you mean that they are free to buy where they like and they will buy from the independents so long as they can get as good or a better product from them?

A Yes.

Q Did you ever know of them, of the jobber, effecting the price to the benefit of the public; granting your suggestion that they serve a useful purpose as between refineries, have you ever known of them bringing down the price to the public by any of their activities?

A Oh yes, I have seen that insofar as retail prices go. You have that right in town today.

Q Tell me about it please?

A Well in the case of the third structure gasoline we see where some have a price of 24½ cents. I can take you to another pump in town where you can buy it for 23 cents.

Q MR. FRAWLEY: Tell us more about it, what are the products?

A Third structure, Mr. Frawley.

Q Well are they exactly the same?

A Well I mean it is classified as the third structure. I would not say it is exactly the same. I do not think there is any one refining company that makes a product to that specification but nevertheless it is classified as the third structure product.

Q THE CHAIRMAN: What part does the jobber play in that, the difference in price to which you point?

A Well he would play this part, he might sell to that particular consumer of gasoline at a price lower than the major oil companies were selling at.

Q MAJOR LIPSETT: Is that third structure quite a fair example to give, is that not a competition of the two refineries, yourselves and the Lion Oils, as distinct from any competition that comes from jobbers?

A Well third structure is really one of the products I took because I do not think the spread allowed by the major oil companies to the jobbers on the products would justify making very much of a cut by the jobber to the dealer, but speaking of that I am only speaking from our own spread. I do not know what other spreads other companies receive.

Q THE CHAIRMAN: Wherein does the jobber play a part in reducing the price to the public, that is what I want to get at. Perhaps he is and if so I want to hear about it. Perhaps he plays a very

important part, let us hear all you can say, you say they are a good thing, jobbers, so tell us everything you can about them?

MR. FRAWLEY: You are a jobber yourself?

WITNESS: Mr. Commissioner, the way it is arrived at is this, the major oil companies, as you know have been in existence for quite a long time in this Province and most of the dealer business which there might be is sewn up in some way by them, therefore the only way that an independent can go in, get his feet in or get that business is by offering some inducements. He has to do it to get in there. That inducement that the independent offers nine times out of ten is passed on to the ultimate consumer.

Q You are speaking of the independent producer, refiner or what?

A Well yes, you have to say the independent refiner.

Q The independent refiner, all right?

A But if he sells to the independent jobber, if he sells to the independent jobber the jobber has the same opportunity to go out and do the same thing.

Q That is to say you say the independent refiner may sell to the jobber at prices lower than the major companies put out?

A Yes.

Q And he in turn can place it on the market because of that at a lower price than the retail price of the major companies?

A Yes.

C2
12

Q And so that has an effect of reducing the cost to the public?

A Yes.

Q Well can you tell us when that ever was done?

A I might be able to do that if I went back to some of my records. I have not the records right here at the present time.

Q MR. FRAWLEY: Yes, that is what we would like, Mr. Jones, just specify where the jobber purchases from the independent refiner as you say at cheaper prices and has established lower dealer prices which in turn have been passed on to the consumer?

THE CHAIRMAN: Yes.

MR. FRAWLEY: We would like all the information you can gather up about that, what dates and kinds of products and so on and companies, I would very much like to have that, but let me say this in passing, it only applies to the third structure gasoline and distillate, does it not?

A Yes, it would, Mr. Frawley, because that is the only product at the present time that we manufacture and that we would be able to do anything like that on.

Q And the same for Gas and Oil Products, I mean the same for the Lion Oil Company and Beckers, or any other refinery?

A I would assume that.

Q Because he is not making standard gasoline, with the exception of what the Becker Company is now making, and that is being analyzed?

Q THE CHAIRMAN: Where does the Gas and Oil

Products buy their standard gasoline?

A Well we were buying from the Texas Company. I think you will notice in the previous evidence that was submitted that we approached the Imperial Oil Company or Mr. Mayland wrote to the Imperial Oil Company, Mr. LeSueur I believe and we received a letter back from Mr. LeSueur's secretary advising us that it was not possible for them to quote us on Ethyl or "Q" brand gasoline; our next move then was to approach the Texas Company, a thing we did not wish to do in view of the large amount of crude we had in the Province but we went to the Texas Company and were able to make a deal with them; after that deal had been in existence three or four months, I might mention that I had been talking to Mr. Wallace of the Maple Leaf Petroleum and he said at the time we were making the deal with the Texas Company that he would like to quote us but he had not sufficient spread at that time to offer us any price, so it was just dropped and as I say we hooked up with the Texas Company but I believe it was in August of last year that I happened to be talking with Mr. Wallace again and I asked him if he would be able to quote us on Ethyl and "Q" brand gasoline and he said "I will see what I can do".. Shortly after that we got together, talked things over and we were able to make a deal that was better than the one we had with the Texas Company, with the result that we are at present buying from the Maple Leaf.

Q MR. FRAILEY: You are buying your Ethyl and "Q" brand at what margin under tank waggon?

A From the Maple Leaf, Mr. Frawley?

Q From the Maple Leaf, yes?

A I believe that information is attached to my other papers but if my memory serves me right, the "Q" brand is 5½ cents and the Ethyl is 6½ cents under the posted tank waggon price, not today's tank waggon price, the new prices, but at that time.

Q 3½ cents you say?

A No, 5½ cents for "Q" brand and 6½ cents on Ethyl.

Q THE CHAIRMAN: Under?

A Under the Imperial Oil Company's posted tank waggon price.

Q MR. FRAWLEY: Let me understand, Exhibit "316", which is the Imperial's price to Maple Leaf, shows, which would be operative at the time you speak of, what time was that?

A August 1938 if my memory serves me right.

Q Well----

A Let me be right about that, Mr. Frawley, it was in August 1938 that it was discussed but I do not think we started taking goods from them until the early part of November.

Q MR. FRAWLEY: All right, now Mr. Halverson's evidence is that during the year 1938 he sold the Maple Leaf "Q" gasoline at 6 cents under posted tank waggon price at destination and Ethyl gasoline at a cent and a half above "Q", now that is what the Imperial sell to Maple Leaf at, and you say the Maple Leaf began selling to you in what month?

A November I believe.

Q November of 1938?

A Yes.

Q At----

A 5½ cents under tank waggon on "Q" and 6½ cents on Ethyl, which would leave them according to your figure a spread of 1/2 and 1.

Q A spread of 1/2 a cent on "Q" gasoline and a cent on Ethyl gasoline?

A Yes. Now is that right on Ethyl, Mr. Scrimgeour, I left my price book at the office.

MR. SCRIMGEOUR: I can give you the prices but I cannot give you how much it is under anybody else?

A 6½ cents is right.

MR. SCRIMGEOUR: I will give you the exact price.

MR. FRAWLEY: What did you pay the Maple Leaf at Calgary for "Q" brand and then we can tell you.

MR. SCRIMGEOUR: 11 cents and 12½ for Ethyl.

Q MR. FRAWLEY: 11 cents, that is 5½ cents, 11 cents will be 5½ cents under 16½ and what for Ethyl?

A 12½ cents for Ethyl, that is 6½.

Q The Maple Leaf, Mr. Cottle then calls my attention to the fact that the Maple Leaf would appear to get a half a cent spread on each gallon if they sell to you, both of the leaded products?

A Yes, I believe you said a cent and a half a cent for

"Q" that they paid.

Q That they pay?

A Yes, that is a half a cent in each instance.

Q Now you then are a jobber insofar as these standard gasolines are concerned, up until now, you buy from Maple Leaf and sell to the public?

A Yes, you can classify us as that.

Q And you have maintained the Imperial Oil structure throughout on those gasolines?

A Yes, we have adopted their tank waggon prices at our different points.

Q THE CHAIRMAN: Why, I do not understnad, you say you could not buy from the Imperial but you succeeded in buying from the Maple Leaf?

A Yes.

Q And by their handling they got what?

A A half a cent a gallon.

Q MR. FRAWLEY: Maple Leaf got a half a cent a gallon?

Q THE CHAIRMAN: Yes, do you know why you were unable to buy from the Imperial, while you were able to buy from the Imperial's wholly owned subsidiary?

MR. FRAWLEY: I have some correspondence which I thought at one time we might put in. Perhaps I should put in one letter from the company, from the Mayland Company to the Imperial and the Imperial's answer. Mr. Jones has stated that he was unable to buy. I have no desire to put the letters into the record, that is the effect of it, but perhaps I should not talk about them unless they are in.

THE CHAIRMAN: Very well.

Q MR. FRAWLEY: Is this a copy of the letter that Mr. Mayland wrote to the Imperial Oil Company asking for quotations on leaded gasoline?

A That is, Mr. Frawley.

Q It is dated the 22nd of March and I presume there is no point in having Mr. Nolan produce the original?

THE CHAIRMAN: Oh no, so long as Mr. Nolan is content that the copy can be used.

MR. NOLAN: It can be marked.

(COPY LETTER MARCH 22nd, 1938, PRODUCED HERE MARKED AS EXHIBIT "539").

THE CHAIRMAN: That is a letter from Mayland to LeSueur?

MR. FRAWLEY: It is a letter from Mr. Mayland to Mr. R. V. LeSueur and may I put the answer in first and then I will read both of them, is that the letter Mr. Mayland received in answer to his letter?

A Yes, it is.

Q Mr. Jones produces original letter which they received in reply .

(LETTER PRODUCED DATED APRIL 22nd, 1938, HERE MARKED AS EXHIBIT "540").

THE CHAIRMAN: Is it a reply from Mr. LeSueur?

MR. FRAWLEY: No, it is a reply on the letter head of John McNeil, Vice President, and signed "J. McNeil". I will read both of them. The first is a copy of a letter dated March 22nd, 1938 and it reads as follows:

March 22, 1938.

"Mr. R. V. LeSueur, Vice-President,
"Imperial Oil Limited,
"56 Church Street,
"Toronto, Ont.

"Dear Mr. LeSueur:

" I tried to purchase leaded gas from your "people here in Calgary last year, and in ex-"change sell them casinghead. They did not seem "to want to make the exchange with me. We were "compelled to bring most of our leaded gas from "Montana to blend with our casinghead.

" Now I have signed a contract with the Ethyl "Corporation to put in a leading plant in Calgary "but I was thinking that it might be better if I "worked through you people, provided you were wil-"ling to sell us the leaded gasoline we would re-"quire at a price at which we could afford to pur-"chase it. If that could be done I would not go "ahead with the leading plant, but if I cannot pur-"chase it I will have to put in a leading plant as "our trade requires a certain amount of leaded "gasoline. I would very much like to hear from "you in regard to this matter.

" I was in to see Mr. MacLeod today and gave "him an outline on a drilling agreement of a well "which some lawyers have been trying to put over "with you people in Toronto. I do not want you to "think that I am trying to interfere with them

"putting over the deal, but I am sure your people "did not understand my proposition to you. How-"ever, I took it up with Mr. MacLeod today and he "is writing to you.

" Yours very truly,

" A. H. MAYLAND "

MR. FRAWLEY: Then the Imperial Oil Company's letter is date April 22nd, 1938.

IMPERIAL OIL LIMITED
Imperial Oil Building
Toronto 2, Canada.

April 22nd, 1938.

"Mr. A. H. Mayland,
"300 Lancaster Building,
"8th Avenue West,
"Calgary, Alberta.
"Dear Sir:

" Mr. LeSueur has referred to the writer "your letter of March 22nd, relative to the pos-"sibility of our supplying you with leaded gas-"oline. We are very sorry that we are not, at "the present time, in a position to quote you on "this product.

" Thanking you for the enquiry, and regret-"ting the delay in answering your communication, "which was caused by Mr. LeSueur's absence from "the City the greater part of the past month,

" Very truly yours,
"J. McNeil" "

Q MR. FRAWLEY: Then you made your arrangement with The Texas Company after this or did you have them at the time the letter was written?

A After that I believe, Mr. Frawley.

Q And then you carried on with the Texas Company until November 1938?

A Approximately.

Q When Mr. Wallace began to sell you, the Maple Leaf Company began to sell you leaded products?

A Yes.

Q Did any correspondence pass between you and the Maple Leaf Company at the time you made these arrangements with them?

A No, it was verbal. The only thing we have is just our agreement with the Maple Leaf Petroleum.

Q An agreement, you have an agreement?

A Yes.

Q In writing?

A Yes.

Q Have you it there?

A No, I have not got it with me.

Q What is the purpose of the agreement, does it bind you to buy from them exclusively for a period?

A Well there is a period stipulated, a year and a half but we have the right under that agreement if we wish to commence manufacturing those two grades of gasoline in between times, and then the contract becomes null and void.

Q Would you mind bringing the agreement with you, perhaps at recess time you could send for it and have it brought

over and we might file it because I do not want to bring you back unduly?

A Yes.

Q And the prices are quoted in the agreement too, are they?

A Just simply outlines our spread and what prices we might get.

Q THE CHAIRMAN: Then in the "Q" brand we have a jobber selling to a jobber who sells to the public?

MR. FRAWLEY: Yes.

THE CHAIRMAN: The jobber sells to the jobber who sells to the dealer.

MR. FRAWLEY: Yes, and you retail that, you own some service stations also, your company?

A Yes.

Q Which you operate on a salary basis?

A No, we do not operate any of our stations on a salary basis, either on commission or rental.

(Go to number 12,302)

W. H. Jones

Q I told you I had some questions to ask you, which I have, but you perhaps have not finished with your own outline of what you want to say?

A There is only one other thing I wish to mention, Mr. Frawley, and that is drums. Our company would welcome the idea of disposing of all their drums to the farmers. And the reason I make that statement is this. The major oil companies over the past 15 or 20 years have bought considerable drums. They were able to buy those drums when the spreads were possibly a lot higher than they are on gasoline today. With the result that they are paid for and probably all written off. But the independent who goes out and buys Drums on the spread that we are making today on gasoline it makes it almost impossible. Therefore, we would welcome selling out any drums we may have bought probably at as high as $9.00 and selling them at half-price to fix it up, if everybody were agreeable to it.

Q THE CHAIRMAN: It has been said to us by a representative farmer that the cost to the companies is very low, having regard to their total expense, relatively low, and free drums is a service that should be continued. You say it is quite burdensome as I understand you?

A Yes, it is, because you take and supply a man with we will say a drum of gasoline. The value of the gasoline would probably be $4.50 or $5.50. You give him an $8.40 drum to take that gasoline away with. You take his signature for that drum and charge it up to him, because nine times out of ten he cannot pay for it. You have to trust to luck that the drum comes back. If it does not come back you are out

W. H. Jones

the $8.40. Another thing about drums is that the farmer persists in keeping it. You might only make two trips with one particular drum in a year. Another drum you might make ten trips with. That drum that makes two trips is just a burden. If you kept them turning over enough times in a year they will eventually pay themselves out. And farmers throwing them off wagons and bursting them and bringing them back, and it might in some instances cost you a dollar or two to weld them. All that expense has to be borne by the oil companies. They say nothing about it, but they come in and you do not know until you start filling it.

Q MR. COMMISSIONER LIPSETT: Do you find that they use the drums of one company to go and get gasoline from another company?

A I believe that is a common practice all right.

Q THE CHAIRMAN: What would you think of, you have a great number of drums out around the country the oil industry that the farmers have never been required to pay for and never expect to pay for and that is a condition for which the oil companies may blame themselves, I suppose, competition has lead to that. What would you think of saying for the future no drums should be put out that are not paid for?

A I would say it would be a wonderful thing, but in order to get the whole thing to tie in, it would be necessary for you to get all those drums that are out and then let the different companies get together and agree on a price that they should be sold at to the farmer, regardless of what they sell them for,

and if they want to sell them on a conditional sale coontract, sell them outright, and let us get down to some brass tack arrangement on it.

Q You say half-price would be good?

A Well, I think my chief would be quite agreeable, providing everyone else fell in line. And mind you we would not want to do it ourselves and the other companies not.

Q I quite understand?

Q MR. FRAWLEY: Now, Mr. Jones, about your price structure. You have filed that as Exhibit "262", some time ago. I find looking at it that you follow absolutely to the decimal point the Imperial Oil price structure. I take Beiseker, for instance.....?

THE CHAIRMAN: You are on marketing costs now?

MR. FRAWLEY: Yes.

THE CHAIRMAN: Yes?

Q MR. FRAWLEY: You follow the Imperial Oil throughout at Beiseker on Ethyl. Your Ethyl is the same as their Ethyl?

A Yes.

Q Your Miracle is the same as their 3 Star?

A Yes.

Q And your Purity is their Acto. Your tractor gasoline is the same as..... Now, just a minute. You have tractor gasoline and they have not got one called tractor gasoline Their price is the same as your Purity. Your tractor gasoline is the same as their tractor distillate?

A Yes.

Q And your Number 1 Diesel is the same as their Diesel Fuel M. S.

W. H. Jones

Precisely. Is that inevitable?

Can you not, as an independent refiner with a small compact marketing organization with a very limited number of wholesale outlets, numbering precisely 10 wholesale outlets, manufacture your own products and I am speaking only now of those products you manufactured, why can you not show a better price to the consumer, a better wholesale price to the consumer, than the Imperial Oil? Because we have been told, having in mind what we were told by Mr. Halverson that his price structure is built having regard to his organization all over the province and the necessity he has in serving the Province of Alberta from Coutts to Dawson Creek?

A We have always taken this stand that we have thought it better to follow the major oil companies' price and stay with that.

Q Why? Better for whom, for yourselves or the consumer?

A Well, I would say better for ourselves, yes.

Q Well, can't the consumer look..... This is a large question and I want to put it to you - can the consumer look to the independent refiner and marketer for any relief in the matter of consumer price?

A He might do that once the independent marketer gets into a position where he can be independent of everyone else.

Q How do you mean, independent of everyone else?

A When I say that, when the independent producer can produce everything that is required.

Q And that will be, you hope or your company hopes, about the middle of next month, you will be marketing.....?

W. H. Jones

A We hope that, yes.

Q All products?

THE CHAIRMAN: By the independent producer you mean the independent refiner?

A Yes, refiner or marketer.

Q MR. FRAWLEY: For a long time you had a very good business in third structure gasoline and this farm distillate you manufactured yourselves. Now to what extent did you break away from the established prices? Perhaps you did, and I would like to hear about it?

A Well, we did not as far as any of our points in the country go, Mr. Frawley, we did not break away from any prices that might be established by the Imperial. We may have at one or two points where we had to break away to meet competition outside of the major oil companies.

Q Outside of the major oil companies?

A Take possibly Leduc as an example, where you have your chart here.

Q Yes. What did you do at Leduc?

A Well, it was necessary to meet the competition of the Lion Oils of Edmonton and we simply met the Lion prices on their third structure products in Leduc.

Q I won't bother looking and comparing your prices at Leduc, shown on Exhibit "262", with the Imperial Oil price structure, but perhaps you could tell me in a word that I will find they are the same, will I?

A Yes, you will find the Imperial price on their Acto gasoline is 17.1.

W. H. Jones

Q At Leduc?

A Yes.

Q Yes, that is right. 17.1. And your Purity at Leduc is 17.6?

A Yes.

Q And on tractor gasoline 17.1?

A Yes. Which we have since that was put in changed to 16¢.

Q Changed to 16¢?

A Yes.

Q And the Imperial will, of course, they have a change just around the corner?

A There is a change in effect now. I was just compiling this price information this morning.

Q You see, I am wondering to what extend you break away from the major companies. The Imperial are proposing a reduction on Acto gasoline at Leduc to 16.7 as against 17.1?

A Yes.

Q And that is reduction of 1-4/10ths cents?

A Correct.

Q And you intend to meet that, or do you say you have already met that ?

A No, we have not met it as yet. As I say, I am only just compiling my prices now, since I was not able to get any information regarding that until last night.

Q Generally speaking, what are your views on the question of being required to follow - I mean, it is a free, open market, and you do not have to sell at Imperial prices. Are you not able financially to depart from their prices, or do you feel that the consumer price is low enough?

W. H. Jones

Why do you religiously follow these Imperial prices which are made to suit their requirements, and not yours?

A Well, my answer to that question is this, that the major oil companies' policy seems to have been a good one. I do not think they have lost any money. Therefore, if we adopt the same policy we can fight them at any time with the same kind of weapon.

Q You can fight him at any time with the same kind of weapon. Could you not fight them with perhaps bringing down the price? Could you not take some gallonage away from them, bring down the price, and perhaps their set-up would not allow them to bring down their price and you would have their gallonage?

A Suppose we do go in and chop prices 1¢ or 1½¢ a gallon, what are we going to do, going to be in a price war. You have heard about those little price wars that they have had down in the United States. We are not a big company and we have not the funds to go ahead and fight these scraps that might start.

Q I think the Commission might be interested in that. Do you seriously feel that if you put in a price reduction at some country point, Beiseker say, the Imperial would come along and cut under you and put you out of business?

A You might run into that kind of difficulty.

Q So you just play a waiting game and follow their prices and the consumer just continues to pay the major companies' prices and the independent marketer and refiner has not done anything for the consumer?

W. H. Jones

A We do try to establish our prices. Our prices are established along the same line as theirs. But we do endeavor to give the farmer or consumer a better product than what they are turning out.

Q That depends upon somebody's analysis and evidence with respect to comparative quality of all these products. There might be something in that. But putting that aside for the moment, there is not any other place where you are of any benefit to the consumer, in price, which is all the consumer understands?

A No, I would not say so, no.

Q Now do you have any hope, or is that asking you too much.....?

Q THE CHAIRMAN: You think that is the position in regard to all small refineries, is it, to follow the posted price of the Imperial?

A Well, I would not like to answer that question, Mr. Chairman, because I do not know.

Q I thought probably you as a marketer would know what prices the other refiners were charging for their products?

A Our position might be a little different from that of the Lion. I believe that all the Lion have is Calgary, Red Deer and Edmonton. We are branching out all over the province, that is, at pivotal points.

Q MR. FRAWLEY: No. The Lion have given me a list of some 20 or 30 points where they maintain bulk outlets, storage, and have given me all of the prices and the amount of storage.

A That they actually own and control.

Q Yes?

W. H. Jones

A I did not think the Lion had anything like that, to be truthful with you.

Q That raises the question as to the nature of these agencies and these trucker distributors. We will have to go into that more fully when the Lion goes on the stand.

THE CHAIRMAN: And there is some question of dealer-farmers, and so on.

MR. FRAILEY: Yes, a large question.

Q In any event, you accept for the moment the fact that the Lion Company has given me a list of I think 21 sub-stations, they call them. They may be leased, but that is only a circumstance, but where their products are kept on consignment just as yours are and just as the Imperial Oil's are. I regard them as outlets of the Lion Oil Company. However, I was saying that in regard to something that you were saying, What were you saying?

A Just as I mentioned to you that I did not think they owned anything outside of those three points I mentioned.

Q Assuming they do, and answering the Chairman's question, they follow the Imperial posted price, or don't they?

A I would not like to say.

Q And so your company conforms to the price system of the Imperial?

A I might tell you something about our set-up that probably I should have mentioned before.

Q Yes?

A That is that in putting in the combination stations, that is, wholesale and retail, that establishes us at a point we will say like Beiseker, Trochu, Lacombe or whatever it might be,

. H. Jones

and the idea of establishing it as a wholesale and a retail set-up is that we are going to be guaranteed distribution of products both wholesale and retail at those points. Our agents are paid 2¢ a gallon commission on all the gasoline or distillate that goes out to those stations. They are paid 8¢ a gallon on lubricating oils and 1¢ a pound on greases. They are also entitled to any spread.....

Q THE CHAIRMAN: Just a moment, 2¢ a gallon on gasoline?

A 2¢ a gallon on gasoline. Or make it refined products and then you will have it all.

Q MR. FRAWLEY: On all White goods?

A Yes, that is it.

Q THE CHAIRMAN: Yes?

A 8¢ a gallon on lubricating oil and 1¢ a pound on greases.

Q 8¢ a gallon on.....?

A On lubricating oils.

Q And 1¢ a pound on greases?

A That is the commission for selling anything at all through the wholesale portion of that business. Any sale that he may make from the wholesale portion to the retail portion his commission is as I stated there. Ahy sales that he might make through his retail operation of the business the spread that is made there is his.

Q These are wholesale prices you have been talking about, wholesale commissions?

A Yes, that is it.

Q All right. Now then, he is both a wholesaler and a retailer?

W. H. Jones

A And a retailer.

Q In one?

A That is it.

Q He gets 2¢.....?

A If he transfers from his wholesale.....

Q For selling to himself?

A Yes, anything from the wholesale to the retail he gets his commission on, you see.

Q What commission is that?

A The same figures as I just gave you there. That is considered a wholesale sale when he purchases from his wholesale to his retail.

Q And when he moves it to his retail, then he can sell it for what he likes?

A He can establish his retail price. We do not tie him down to anything on that at all.

Q You do not care? Then in practice, does he sell to anyone else but himself?

A Any other dealers, would you say.

Q Yes?

A Very few, because.....

Q Is there any other wholesale business other than himself?

A Oh yes, we classify the farmer business as wholesale business because it is in drum quantities. That is where the station gets its name of combination wholesale and retail.

Q So the farmer gets the wholesale price?

A Yes, that is the posted tank wagon price.

Q The posted tank wagon price, did you say?

A Yes, the posted tank wagon price is what the farmer pays.

W.H.Jones

Q Now, your dealer has a 2¢ spread there then when he sells to a farmer. Has he got to make free delivery of that?

A Yes, he has to deliver out of that.

Q Do you provide trucks?

A In quite a number of instances, the dealers supply their own trucks.

Q How do you feel about free delivery?

A Well, Mr. Commissioner, this is a hard thing to answer. I myself would certainly like to see the farmer come in and take his own product out. But you run into certain conditions. There are truckers hauling in and out, possibly grain, coal or something like that, and they throw on one or two drums and haul the stuff out.

Q What is that? I do not follow you. Trucks go in for coal and grain, yes?

A That would probably bring in two or three drums and I believe in instances of that nature that the major oil companies' agents allow possibly anything from ½¢ to 1¢ a gallon.

Q You think that your agents in large measure get away from the burden of making delivery, or benefit as it may be, by paying 1¢ at least out of their 2¢ by employing those who are bringing other things to carry it for them?

A Yes, I think that most agents would be quite pleased to set aside some part of their commission if a farmer would come in and take his own product out. I would not be prepared to say what amount.

Q Did your company ever analyse it to find out what free deliveries were costing?

A No, we have never bothered, Mr. Commissioner, because that

W. H. Jones

has never concerned us as you can see. That is the agent's problem.

Q Yes?

THE CHAIRMAN: Mr. Frawley, I have just been wondering, we are hearing from everybody except these agents. Have you them in mind? The ordinary agent whose commission is being cut into by free deliveries and the like. The service station gets the tank wagon price less so much, and no less. But are they a class that should not be heard? For instance, this Witness says, it just occurred to me this minute, this Witness says "We are not much concerned with this problem of free delivery." He has general views upon it and thinks the agent would probably forego some commission if he could get the farmer to take it. But free delivery is quite an important question, in my view. It would be like the free drums.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And should not the man who is bearing this burden, as distinguished from his refiners, tell us about that?

MR. FRAWLEY: I think we should hear some agents very likely.

THE CHAIRMAN: Yes, this man, he is not really interested, and rightly so, because it does not touch the pocket-book of his company, whether this agent is making a living or is not, or whether or not there could be a saving to the general public if this was cut down. The agents may say "We have just reached the point where

W. H. Jones

we cannot go on unless something is done about it."

MR. FRAWLEY: Mr. Nolan calls my attention to the fact that Doctor Frey did speak to some agents and perhaps would like to speak to more. It is like everything else. If you get the agents here - I think they should come and they should speak, but they may not feel free to speak. We have already run into this difficulty in connection with, the retailers. They do not desire our investigating auditors to disclose their names on the Witness stand and to refer to them by number.

THE CHAIRMAN: Why?

MR. FRAWLEY: They do not want their competitors to know whether they are making money or losing money in the retail distribution of gasoline. You get into some difficulties of that kind. However, it is certainly worth while considering.

THE CHAIRMAN: Well, I will leave the thought with you. It is not enough, if it is important that the evidence be heard, it is not enough that Doctor Frey has seen them. Anyone whose evidence we are going to pass on we are going to hear them.

MR. FRAWLEY: Yes. That is necessary.

Q Now, I want to talk about this retail. I do not know whether it matters much or not, this retail and wholesale station rather and explore that for the benefit of the Commission. I would like to indicate the spreads he is operating on. You see that at Beiseker you have two men in one, a wholesale agent for the distribution of your products, and the man who operates the retail service station?

W. H. Jones

A Yes.

Q On the same premises?

A Yes.

Q He buys your standard gasoline, we will say at 17.9, that is the posted tank wagon price?

A Correct.

Q He really puts that into his station at 16.9, doesn't he?

A No, Sir, he puts it in at 17.9.

Q He puts it in at 17.9, the same. For he sells with this arm to the farm trade at 17.9?

A Yes.

Q But you pay him 2¢ a gallon for that?

A Yes.

Q Now then, some of it he sells in the front part of his premises, through retail pumps and I put it to you that he sells that in the Beiseker district at 23¢ ex-track, from the information we have collected and shown on Exhibit "322". We know the retail spread in Beiseker to be 5.1¢ on regular gaoline ?

A What do you mean by regular gasoline, Mr. Frawley?

Q Miracle, 3 Star and Nevr-Nox?

A I am not conversant with the retail price.

Q I am asking you to take it from me that is 23¢?

A Yes.

Q Then your agent at Beiseker on the retail side of his business has a spread, a pump spread of 5.1¢?

A Yes.

Q But he also has 2¢ spread in transferring that from the wholesale to the retail department of his business?

W. H. Jones

A Yes, that would be right.

Q So he is really operating with respect to his retail price, he is operating at 7.1¢?

A Yes. Such being the case, your figures are right.

Q If my figures as to the going spread being 5.1¢ on standard gasoline at Beiseker, and 3.6¢ on Ethyl and 2.6¢ on third grade. That is a pretty good operation on the retail side of his business?

A Well it would be. It all depends, Mr. Frawley, on the amount he sells. He may only sell 25 gallons a day, and he may not sell that much.

Q You mean he would not have a very big retail business?

A No. The idea of that combination set-up is to have that man there and he is in the position to give the public if necessary 24-hour service. As a matter of fact, last Fall Beiseker remained open 24 hours a day.

Q But he would remain open if he did not have that retail pump there. He would still feel he should remain open. He would, if it was good business stay open through the busy season even if he only operated a wholesale outlet?

A He might, or he might not. With his wholesale and retail set-up, he has his quarters there, and he can sit down and make himself at home. I do not think you will find the major oil company men where they have a warehouse on the railroad track, that they will stay and wait for the business to come in during the busy month?

Q He is not using his retail pump 24 hours of the day?

A No, but the remuneration he would receive on the retail vending pump during the day would justify his staying open

W. H. Jones

for the 24 hours.

Q We have heard a lot about the great advantage of these combination outlets, and naturally we want to get right down to brass tacks on it if we can?

A I think we will have to wait a few months before we see.

(Go to Page 12,319)

MR. FRAWLEY: Mr. Jones now produces the contract which his company has with the Maple Leaf Petroleum Ltd. dated the 3rd of September, 1938. This is the original signed copy.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "541".)

THE CHAIRMAN: I think we should give Mr. Jones the liberty of substituting a copy if he wants to.

MR. FRAWLEY: Yes, if you would rather keep the original and substitute a copy we will do that because this is the original signed by Mr. Wallace.

A I think so long as the Commission have it in their care that it would be satisfactory to file it, Mr. Frawley.

THE CHAIRMAN: All right. That is Exhibit "541". An Agreement with the Maple Leaf.

MR. FRAWLEY: And the Gas and Oil Products Limited dated the 3rd of September 1938.

THE CHAIRMAN: I do not understand why it is notthe U. P. Oil buying from the Maple Leaf.

MR. FRAWLEY: No, that is only in the crude.

THE CHAIRMAN: That is entirely in crude.

MR. FRAWLEY: Yes, limited to crude.

WITNESS: Yes.

Q MR. FRAWLEY: I noticed one thing about this, under this agreement, it runs, we will see how long it runs ----

A A year and a half, I think.

Q Notwithstanding, Clause 8 says "notwithstanding this agreement

is for a period of 18 months", well now, let us see, yes, Clause 2, Clause 1 says:

"1. The Gas and Oil Company "COVENANTS AND AGREES that for a period of eighteen "months from the date of this Agreement it will deal "exclusively in the ETHYL GASOLINE, "Q" GASOLINE and "ILLUMINATING KEROSENE purchased from the Maple Leaf "Company, and that it will not during said period "deal in such products purchased from any other "person, firm or corporation, PROVIDED however "that nothing herein contained shall prevent the "Gas and Oil Company from manufacturing the said "or similar products and selling or dealing with "the same in the usual course of its business."

A That was, we had that particular part of that clause put in because we did not know when we might want to start marketing an Ethyl grade ourselves.

Q In the first draft it simply provided you would purchase your requirements, that you would deal exclusively in their leaded products for 18 months?

A Yes.

Q And you had a proviso put in, the proviso which I read?

A Yes, reserving the right. The Contract is that so far as purchasing goods, but if we manufactur ourselves ---

Q Insofar as you are a jobber and as long as you continue to be a jobber you are tied to the Maple Leaf Company, that is the way to put it?

A For the period of that Agreement.

Q For the period of that Agreement, that is for a period of 18 months?

A Correct.

THE CHAIRMAN: What date is that Agreement?

MR. FRAWLEY: The 3rd of September 1938.

WITNESS: I think it mentions a little further on that November 6th or approximately that date that we will commence purchasing from them.

MR. FRAWLEY: Yes, it is dated in September.

THE CHAIRMAN: It is not effedtive then?

WITNESS: Not effective at that time.

Q MR. FRAWLEY: I am trying to find the effective date of it?

A Possibly that is not in there, Mr. Frawley.

Q That is by some subsequent letter or something?

A It would be verbal.

Q Now I am interested in something, the Ethyl gasoline which you purchase under this Agreement is called "Renown" gasoline?

A Renown Ethyl Gasoline.

Q Now that name, I put it to you, but perhaps you do not know, is the property of Imperial Oil Limited, not Maple Leaf Petroleum Limited, what do you say about that?

A Well I do not know, Mr. Frawley.

Q How do you know what kind of gasoline, was that discussed between you, what kind of gasoline you were getting, that is what name of Ethyl gasoline you were getting?

A No, when we were speaking about Ethyl gasoline it was mentioned and I believe it is mentioned in that Agreement that it would be to the specifications of gasoline required by the Ethyl Gasoline Corporation.

Q Yes, and the "Q" gasoline would be colored to the specifications of your Company.

A Correct.

Q But the name ----

Q THE CHAIRMAN: The Ethyl, why do you call it "Renown" or "Ethyl" or anything else, are they not all the same?

MR. FRAWLEY: The product itself?

THE CHAIRMAN: The Ethyl.

MR. FRAWLEY: Yes, it is all the same.

THE CHAIRMAN: The Ethyl which is put out by various companies under various names of their own associated with the word Ethyl, is all the same?

MR. FRAWLEY: Pretty well all the same, oh no, not all the same octane number, as Mr. Kaley explained it to us there is a minimum but no maximum.

THE CHAIRMAN: Yes, I should qualify that, all the same in the sense that none of them can be below a certain specification.

MR. FRAWLEY: That is right.

Q MR. FRAWLEY: There is no point in elaborating upon this Renown name except to establish something that has already been established, that the Maple Leaf is no more or less than a marketing arm of the Imperial because they supply, without any question at all, under their Agreement to the Gas & Oil Products a brand or a name which is the property of the Imperial Oil Limited?

A I believe myself that the Renown is an Imperial brand although I am not prepared to swear to it?

Q However, there is nothing mentioned in here about it.

Now about "Q" gasoline, did you have some talk in connection with that as to what name you would be permitted to market "Q"?

A Yes, we gave the Maple Leaf a suggested name which we called our "Miracle 99".

Q That was the arrangements you had with the Ethyl Company?

A No, no.

Q Do you not have to get the consent of the Ethyl Company to sell Miracle 99?

A I believe the name has to be passed on by the Ethyl Gasoline Corporation.

Q Yes?

A But in the case of straight gasoline, well you have to take the company's jobber name that is supplied, for example when we were selling the Texas Company gasoline we had to carry it under "Texaco Ethyl".

Q Yes?

A But in the case of our Miracle, we just took their Fire Chief and specified it under "Miracle".

Q I would like to file this document, which has already been put in by Mr. Kaley but Mr. Jones now produces the license agreement between Gas & Oil Products Limited and the Ethyl Gasoline Corporation which provides ---

THE CHAIRMAN: Is it not in?

MR. FRAWLEY: Perhaps this very thing or a copy of it is in, not this same document but something with the same information.

THE CHAIRMAN: Not the same document?

MR. FRAWLEY: No, not the same document, this is the original bearing the signature of the Ethyl

Gasoline Corporation and the Gas & Oil Products. A photostatic copy perhaps is in, that is what is in.

THE CHAIRMAN: We do not want to put it in twice.

MR. FRAWLEY: I will simply call your attention to, I have not the Exhibit number, however, in your arrangement for the sale of Ethyl gasoline the Ethyl Gasoline Corporation has given you the name "Renown", that is the point?

A According to that Agreement, yes.

Q Now where did they get the name "Renown", by virtue of what, upon whose instructions was the Agreement made between the Ethyl Corporation and your company prepared, so that they knew to insert the word "Renown" in the contract form?

A Well I imagine that the Maple Leaf Petroleum are the ones who put the word "Renown" in there.

MAJOR LIPSETT: Is that a contract to job Ethyl?

MR. FRAWLEY: Yes, to job Ethyl.

MAJOR LIPSETT: Not to manufacture it?

MR. FRAWLEY: No.

THE CHAIRMAN: That would not be in would it?

MR. FRAWLEY: No.

THE CHAIRMAN: It should go in if it is not in and if it is in it should not go in.

MR. FRAWLEY: It is part of Exhibit "502".

THE CHAIRMAN: All right, it is in.

MR. FRAWLEY: Yes, yes it is part of Exhibit

"502" and it is a contract made, a copy of the contract made between the Gas & Oil Products and the Ethyl Corporation, covering the sale and distribution of gasoline products, of Renown Ethyl Gasoline and it is dated the 26th of October 1938, that was amonth or so after you made the contract with the Maple Leaf?

A Yes.

Q MR. FRAWLEY: Now Mr. Jones, so far as the farmer-consumer is concerned, the man who buys gasoline at your wholesale stations, they are combination in your form of system, but so far as the man who buys a drum of gasoline at your plant, he gets exactly the same service from your company's agent as he gets from the Lion company's agent in the matter of barrels, delivery and price?

A Yes.

Q Just the same?

A Yes.

Q And your agent has about the same deal from your company as the agent of the Lion Company has with respect to that portion of his business which is wholesale?

A I believe that is correct. I do not know the scale of commissions paid by the major oil companies. I have a recollection if I can go back five years but ---

Q Some of these things will be developed as I ask you these questions ----

Q MAJOR LIPSETT: Just before you start that, does not the Imperial agent only get a cent except where he makes delivery to another dealer?

Q MR. FRAWLEY: Oh, yes. Now just let me

pursue that, your combination dealer at Beiseker we will say, does he make deliveries to any other dealer except himself?

A Well at Beiseker, no.

Q Well in that Beiseker district, any garages or service stations in that area that he supplies from his plant at Beiseker?

A Not to my knowledge.

Q So he is his only retail dealer?

A Yes.

Q And on that business he gets 2 cents?

A Yes.

Q Well in the case of the Imperial he would only get 1 cent even although he supplied it a distance of, well some distance, no, in the same village, he would get 1 cent and if he had to go very far to make delivery to a dealer he would get a cartage allowance but what do you do in the case of your dealers, your wholesale dealers, who supply other retailers?

A Well our agent receives his agreed 2 cents a gallon commission all the way through. If he sells 10,000 gallons of gasoline, that is 2 cents a gallon.

Q Wherever it goes, whether it is sold to the consumer or sold in drums to another dealer?

A That is right.

Q Well now, Mr. Cottle says you may have to reconcile the prices at which he sells to other dealers because he sells at a cent off to other dealers, does he still get 2 cents off that?

A Well we have not, I do not believe, but one point and that just cropped up about six weeks ago, where in order to meet a major oil company's 1 cent discount that they allowed to their dealers, we did have to allow that man or that agent that commission; where our prices you see are set on the major oil companies' tank wagon to their 100% dealer account, they allow 1 cent off that.

Q Yes?

A Well we have not done that at all with any of our set-ups outside of this one account which has come into being at Leduc.

Q Because you do not have to do it but you always have to stand prepared to do whatever the major oil company does in that way?

A We would have to meet that competition.

Q There is not much of that in your dealers?

A We have confined our business to the particular points where we are located.

Q You have this few number of stations and you could perhaps tell us about them all, now here they are, Beiseker, Bentley, Brooks, any distribution to dealers from any of those points?

A Not that I can remember of now, Mr. Frawley.

Q Fort Saskatchewan, Lacombe?

A No.

Q Now in Leduc you say you have some distribution through a dealer from your agency?

A We have one.

Q Tell us what you do because what you do there would be

what you would do if the situation arose, the agent delivers to the dealer?

A Yes.

Q He only collects the posted tank wagon less 1 cent?

A That is it.

Q And what does he get by way of Commission?

A 2 cents.

Q MAJOR LIPSETT: Has he to pay the delivery out of that?

A Yes, that 2 cents a gallon, he has to take care of his delivery out of that. That might be just one other thing I might make clear to you, that our company has not in the city of Calgary adopted the major oil companies' tank wagon price insofar as dealers are concerned; in other words we will take a station in town here that is split, probably handling two companies products, we will say the Imperial and our own, if he were 100% Imperial he would be making a spread of 4½ cents ----

Q Yes?

A But if he were handling our products he would only be making a spread on their line of 3½ cents, in other words their price.

Q Just wait, do I follow that, you say he would only be making 3½ cents?

A Because he is not a 100% account.

Q But on the Imperial part of his business he would not make 4½ cents?

A No, he would make 3½ cents if he were in with that particular account and that is one reason why it has been

very hard for this company to get into these different accounts because immediately a man, we will say, was using, well we will say 76 or Three Star and he wanted to put in a 3rd structure gasoline and preferred our Purity, if he put it in, immediately he did that he would have to sacrifice a cent a gallon on his other two products.

Q We understand that so far as the Imperial gallonage is concerned but how about the gallonage he bought from you, you do not give him that 4½?

A No, we do not recognize that cent; in other words their tank wagon price in town here on 3rd structure was until this recent change of 4 cents, less 1 cent a gallon to their 100% dealer account.

Q Also less the differential discount or the special discount?

A There is no special discount in town. I am just talking about the city now, Mr. Frawley. Anything outside of that probably takes a different angle, a competitive discount.

Q Well I have here, well I do not know now, on the price list of the 22nd of June, 1939, Calgary city, 14 less 1½, you do not think that that 14 less 1½ was the price at which dealers were sold?

A Yes, but their Acto gasoline is not sold in the city of Calgary, you will find it is Turner Valley gasoline.

Q And that is straight 14 without any discount?

A Yes, 1 cent off to their 100% accounts.

Q Yes, always that?

A Yes, so any place to establish our price of 14 cents less 1 cent, to 100%, we just established our price 13 cents

and did not discriminate against any one and we do the same on our miracle, where there is a price of 16½ to dealers our price is 15½ but their 100% dealers get 1 cent a gallon if they are 100% and if they are not they pay 16½ but we do not care who he is ----

Q MAJOR LIPSETT: You sell everybody at the same price?

A That is it, no discrimination at all.

Q Would you just give us your general views about that 1 cent extra to the undivided dealer, whether that is a fair method of doing business or whether the retailer should be in a position to buy gasoline from different sources, the gasolines that he knows his customers need or desire; in other words every dealer should be in the position that he can buy Imperial gasoline or British American Gasoline or the converse, that he can buy your gasoline and British American or Imperial, generally speaking?

A Well of course the set-up of the 1 cent a gallon is recognized by all the major distributing companies; they go and probably sign the dealers up, some of them for a year, others as high as five years and during theterm of that agreement no other major company will solicit that man for his gasoline business. He can solicit him for lubricating oils or greases but he does not for gasoline while that agreement exists.

Q I know that is the practice but what I was trying to get from

you is an opinion of your company as to whether that is a practice which should be allowed to continue or whether the dealer should be left free to buy two or three different gasolines if he wishes?

A I think it would be far better for the dealers to be able to buy his two or three grades of gasoline; there are a lot of the dealers who would do that today but cannot owing to this 100% agreement.

(Go to Page 12,332)

W. H. Jones.

Q You say the practice of creating contracts providing for different considerations to undivided dealers should be set aside?

A I think so.

Q The practice should not be encouraged?

A I will give you an example of it. I mean we will be in a better position ourselves after the end of August, but at the present time it is practically impossible for an independent company to go into one of these 100% accounts and sell him 3rd structure gasoline because he has to sacrifice the 1 cent a gallon on those first two grades and on that account he won't deal with you.

Q THE CHAIRMAN: If he wants to enter into these contracts it must be because he thinks there is some advantage in them to him, this undivided dealer?

A Well, of course, the advantage that is put to him is this, they say "Well, you will get 1 cent a gallon off the tank waggon, where if you are a divided dealer you don't."

Q MR. COMMISSIONER LIPSETT: I suppose if he did not accept that he might be in a potential condition of a new service station being put up next door to him?

A Well, I do not know. I would not go so far as to say a threat of that kind would be used.

Q No, I do not mean it would be put to him as a threat, but there is that competition he might be faced with?

A There is always that possibility.

Q THE CHAIRMAN: I can see your viewpoint. There is also the question of freedom of contract, you know. Where does the public gain whether they are an undivided or divided, can you tell me?

A They don't. It is just as I have always pointed out to

W. H. Jones.

the dealer, it is just discriminatory to him. If he is a split account he is simply out the 1 cent a gallon.

Q MR. FRAWLEY: He makes for his own pocket the extra 1 cent if he goes undivided?

A If he goes 100%.

Q The question might be asked as to whether or not he could continue to operate if he did not get 4½ cents. It, perhaps, comes back to that 4½ cent margin in Calgary. Supposing it was 3½ cents or would your idea be to give them all, whether divided or undivided, the undivided dealer's price?

A Yes.

Q As you are doing?

A Yes.

Q Do you do that with your leaded gasoline?

A To any dealer in Calgary.

Q There is a split account, and you can only get a man to take, say, your Miracle?

A We will sell him for 15½ cents.

Q As against the posted tank waggon of 16½?

Q MR. COMMISSIONER LIPSETT: Under the present undivided dealer system how do you manage to break into a town or point at the present time for your manufacture?

A Well, what we do, Mr. Commissioner, if we try to service the ordinary dealer in a point where he possibly only takes 100 or 200 gallons, and you could not afford to deliver it to him; therefore, our set-ups are like I mentioned before, combination wholesale and retail stations, we are in the town and have our own set-up.

Q Does that mean before you can get into a point in the Province

W. H. Jones.

now you have to incur a capital outlay to put up a new local distributing service in that point?

A That is practically what it boils down to unless a man's business is big enough to justify him taking full truck-loads.

Q THE CHAIRMAN: Do you have much trouble with that combination system of yours, do you have much trouble with deterioration of your products as a result of standing in the tanks?

A No, Sir. We just deliver in quantities of possibly 1200. In the case of Ethyl we can only deliver 200 to 225 along with the other products. So that we keep our products turning over at least once a week, I would say outside of the actual Ethyl gasoline itself. Not only that, but it is all underground and there is not the danger when it is underground of deterioration that there is above ground because you have not got a sweltering sun hitting on your tanks all the time.

Q MR. COMMISSIONER LIPSETT: Supposing that there is complete and sufficient distribution system in existence in the Province at the present time. Assume it is just right or it may be too much. But assume that it is just sufficient at the present time. Before any other refiner could do any business refining he would have to set up an additional distribution system, as things are at present in this Province?

A I would say yes, because I do not think that there is enough what I would term "foot-loose" accounts that any other independent could come in and sew enough business up.

Q Is that largely caused by this extra cent that is given as

an inducement to make an undivided dealer?

A Well, it would have quite a lot of bearing on it. That is more or less an obligation that the dealer has to assume.

Q THE CHAIRMAN: You are starting a new refinery, at least adding on to your refinery, that will supply all products. How do you expect to sell it if you have not enough outlets. Make additional capital expenditures or what?

A That is where we come back again to our jobber business.

Q MR. FRAWLEY: How do you mean?

Q THE CHAIRMAN: You are not going to job much to the Imperial or the B. A., are you?

A No.

Q Or any of their subsidiaries?

A We will have the independent jobbers that we can look to while we are building the balance of our organization up.

Q Independent jobbers?

MR. FRAWLEY: To be specific, who do you mean?

A When I say "independent jobbers" I am talking of the Artic and the Great West.

Q There is something, if you could take the Great West, again speaking colloquially, from the British American Oil Company you could certainly have-----

A It would give us quite a lot of distribution.

Q Yes. Would you be content to turning your refinery products into his distribution system rather than building your own?

A Oh, no, we must build our own, Mr. Frawley, as the day may come when the Great West or the Artic would say "Well, we don't want any more."

Q Sure?

W. H. Jones.

A And we cannot be sitting there nursing a sick baby.

Q You would go and you hope then to ultimately get your complete line of products on the market through your own facilities?

A That is it.

Q MR. COMMISSIONER LIPSETT: Why would the British American help you to do that by giving up their own very good contract with the Great West or why would the Great West break their contract with the British American to help you out so that you could put them out of business. In what way does the jobber help you in the case you give?

A The jobber helps us in this way, that we manufacture the products and he takes them.

Q But why would the Great West take them for the purpose of building up an organization, a retailing system or a marketing system for you, which would put him out of business at the same time if he loses his connection with the British American?

A Well, possibly you would have to offer him some kind of an inducement. You would have to give him something better than he was getting from the British American at the present time in order to swing him over to our side.

Q For a year?

A Well, I do not think that any of these jobbers, like the Great West and the Artic, would enter into an agreement unless it was for five years.

Q If they entered into an agreement with you for five years, how would that allow you to build up your marketing system. At the end of the five years you would be just where you are to-day, wouldn't you?

W. H. Jones.

A Well, there are several angles, Mr. Commissioner, you can look at it from. You can be supplying your jobber right now and still building up your own organization; you might have to add a little more capacity to your plant at Turner Valley or Calgary or whatever it might be. But having your jobber business you possibly would get more continuous runs than you would with just your own business.

Q That is, it would be a sort of an assisting outlet to that in addition to what you would build up yourself?

A That is it.

Q MR. FRAWLEY: You say you would have to give the Great West some inducement to get away from the B. A. and so on?

A Well, I imagine you would, yes.

Q That would be more spread for him, but the consumer would not enter into that advantageous arrangement, would he?

A Well, that would all depend on what the Great West decided to do.

Q That is what I was thinking of. You are a company marketing a brand, a new refiner with your own Ethyl contract and making Ethyl and leaded gasolines, and I ask you the same question again, has the consumer any hope or any reason to look to you for some relief in the consumer price of these two additional products?

A Well, answering that, Mr. Frawley, until we get the plant actually in operation and find out what our costs are, I would not be prepared to answer that question.

Q That is a matter of policy. That is looking too far ahead. You do not know whether you are going to disturb the Imperial price structure on this No. 1 and No. 2. You have not done so with No. 3?

W. H. Jones.

THE CHAIRMAN: The same considerations obtain, whether they think it worth while to have a price war or not, according to his suggestion on the 3rd structure.

A I must correct you on No. 3. Take it even before my time, they did disturb the Imperial Oil's price on 3rd structure gasoline in town here. I do not know whether it was 3 or 3½ cents that our company were instrumental in getting that price reduced. What Mr. Mayland's actions will be on "Q" and leaded gasolines I do not know until we start manufacturing.

Q MR. FRAWLEY: Of course, Mr. Mayland had a very good reason for reducing the price, at least he had some justification. He was turning out a stablized and treated absorption gasoline?

A Correct.

Q Which he put on the market as 3rd structure?

A Yes.

Q And cut the price, and the Imperial had to follow it. But that day has gone pretty well, has it not, now?

A Well, prices, as you will note ever since that time, have done nothing but go down.

Q But Mr. Mayland has not got that same weapon to enable him to put on the market cheaper gasoline than the ones selling in the Imperial Oil structure, as he was at that time?

A No.

Q So now, I would not think, if that is the only thing you can point to - and I am glad you did point to it, of course - but if that is the only thing you can point to it is, perhaps, at best doubtful if your new products are going to

disturb the market?

A Well, until we actually get our runs and find out what it is going to be it is pretty hard to answer.

Q Now, Mr. Jones, I would like very much if you would prepare and file, with Mr. Scrimgeour's help, and it would not be very difficult at all, I am sure, a short statement in that form, in the form of the document I am giving you, showing us the number of stations and your gallonage and so on. It is merely a convenient form of setting up the situation. If you can do that for me and come back the first part of the week and file it I would be very glad. Now, another question, do you assist your agent in financing the purchase of a truck?

A I do not think we have had a case of that yet.

Q You do not know what your policy would be then in financing?

A Well, with the limited amount of capital we have, Mr. Frawley, we are certainly not going to, if we can possibly get away from it.

Q You mean that if your agent in Boiscokrwho delivers petroleum products to the farmers in that area does it in a truck which he purchases and finances on his own?

A Yes.

Q And that is the case for all your stations?

A Yes. I do not think we have anywhere a situation that that exists.

Q Do you sell to what are commonly called "commercial consumer accounts"?

A What would you term that?

Q Well, the Union Packing Company would be one, perhaps?

A Yes.

Q Yes, and they buy from you at what?

A The Union Packing Company's price is 13 cents a gallon.

Q When you say 13 cents, what product?

A Purity. 3rd structure.

Q In Calgary?

A Yes.

Q That is the posted price of Purity?

A Yes.

Q Well, in other words, you mean your consumer accounts do not get the 100% price?

A Yes, they do get the 100% price because the Imperial Oil Company's price is 14 cents.

Q Your Calgary wholesale price on Purity is 13 cents?

A Correct. And the wholesale price of Imperial 3rd structure is 14 cents.

Q Now, take Miracle. What is the Union Packing Company's price on Miracle?

A 15½ cents.

Q That is the same price you sell to the dealer?

A Correct.

Q In other words, the commercial account then gets 1 cent off the Imperial posted tank waggon, put it that way?

A Correct.

Q It is your posted tank waggon, as I gather. I may say the posted tank waggon in Calgary is 14 cents by the Imperial?

A 1 cent less than the Imperial price.

Q You do go directly to the A. B. A. price and you make your basis that?

A Yes.

Q In Edmonton, for instance, you have, through Associated Distributors, you have a plant in Edmonton?

A Yes.

Q And the Union Packing Company, I suppose, buys from you up there?

A No, I do not believe they do.

Q Bad management there some place?

A Maybe I should correct that a little bit. I believe they only have one car and he possibly buys through the retail end.

Q Anyway, throughout the Province wherever you have commercial consumer accounts, you sell him at the same price you sell to dealers?

A Yes.

Q And do you assist him in purchasing the equipment that he needs to operate his, to use his gasoline in wholesale quantities. In other words, tank and pump?

A Now, you are referring to the dealer?

Q No, I am referring to the commercial consumer account and nothing else.

A We have not any of these commercial accounts in the country.

Q You have none like that?

THE CHAIRMAN: Outside of the Union.

Q MR. FRAWLEY: Does the Union have its own facilities?

A The Union Packing Company have their own pump and tank down there.

Q That is one anyway?

A Yes.

Q And they own them and operate them themselves, do they?

A To the best of my knowledge, yes.

W. H. Jones.

Q Without any assistance from you as the supplier?

A Yes.

Q That is my point?

A Yes.

Q You are aware many commercial consumer accounts purchasing their requirements from the major companies have to buy from the major companies the equipment necessary to use it?

A Yes.

Q A tank and a pump?

A Correct.

Q But you have none of those, that is all?

A Not of commercial accounts that I can think of just at the moment. We have several dealers that way.

Q Oh, yes. Well, dealers. Then you do give some----well, I have some further questions about that?

A Yes.

Q Now, you have already discussed with the Commission the steel barrel situation and you have said all you want to say about that?

A Yes.

Q What is your company's estimated per gallon tank truck haulage, both long and short hauls?

A I haven't that figure made up.

Q You could let me have that?

A We may be able to. But all our hauling is done by independent truckers.

Q What do you pay them. Some companies told us they pay them 10% under the tank car freight rate?

A We try to work ours out on the basis of, I think it is 8 cents a running mile per 1,000 gallons.

Q Would you rather consider that, or can we take that as your

answer now?

A No, I would like to consider that.

Q If you will make a note of that then. Whether it is 8 cents a running mile per 1,000 gallons, or whether it is different on long or short hauls. Does your company have any third party leases in the operation of service stations? When I say "third party leases", locations where you rent from the owner and then lease to your operator?

A We only have one, I believe, of that nature, and that is our new stand on Centre Street. The property belongs to Mr. Mayland and we are leasing it from him.

Q And you are re-leasing it to?

A To the operators of the station.

Q Now, do you collect as much rent from the operator as you pay the owner?

A Well, that is a very hard question to answer until such time as we have had the figures on the year's gallonage.

Q The reason I am asking that question is that the major companies, most of them----

Q THE CHAIRMAN: How would gallonage affect it?

A Because it is rented out on a gallonage basis.

Q MR. FRAWLEY: Who pays the taxes?

THE CHAIRMAN: What is that, we have not heard of that, have we? A gallonage basis of rental?

MR. FRAWLEY: I think, with respect, it does not make any difference. That is how they pay their rent. It is only a method of paying their rent. You must determine some amount you want to receive from that station.

THE CHAIRMAN: The witness does not suggest that. I could understand if that were so.

MR. FRAWLEY: As Mr. Cottle, who has studied this thing, says in some places they charge the operator a certain cash rent per annum or per month, but in a great many cases they simply charge him so much per gallon. If he has a large gallonage he pays more. If he has a small gallonage he pays less. They do that without any predetermined----

THE CHAIRMAN: The more business he gets up goes his rent.

MR. FRAWLEY: Yes, he is on a gallonage basis. Now, Love's service station-----

THE CHAIRMAN: No set rental at all?

MR. FRAWLEY: No. I am wrong about that. No set rental. No predetermined amount they desire to get for the use of that property.

Q Whether it be that amount or any other amount, you are charging this man a fraction of a cent a gallon?

A 1½ cents per gallon.

Q Rental?

A That is right.

Q Is that all?

A Yes. Well, he pays us 2 cents a gallon on his lubricating oils but that would only be a small matter in the year's business.

Q You stand all the expenses---well, no, the only expense you stand is the rent you pay Mr. Mayland?

A That is all.

Q And he stands all other expenses?

A Yes.

THE CHAIRMAN: Does Mr. Mayland rent on a

W. H. Jones.

gallonage basis?

Q MR. FRAWLEY: To you?

A No, his rental would be monthly to us.

Q THE CHAIRMAN: Cash?

A It is a money rental, yes. A fixed amount.

Q MR. NOLAN: In advance?

Q MR. COMMISSIONER LIPSETT: And that rental, I suppose, is taken from his commission, from his discount?

A Mr. Commissioner, we just simply invoice his stuff at 15½ cents. The rent is 1½ cents a gallon and if he buys 200 gallons his rent is $3.00.

Q THE CHAIRMAN: You take it out of his commission?

A No, I would not say you take it out of his commission, because you are selling him as a straight dealer.

Q MR. COMMISSIONER LIPSETT: He does not get 2 cents?

A Oh, no. Not the service station here in town. He pays the straight tank waggon price here, our established price of 15½ cents, and then we charge him in addition to that 1½ cents a gallon for rent. We arrive at a figure for a station and we figure the first year he will buy 50,000 gallons and his rent, therefore, is $750.00 that we get back.

MR. FRAWLEY: I might call your attention to this, Mr. Scringeour, in his Exhibit "538" has attempted to show what you made on the various products, whether you made them or bought them or jobbed them. On Miracle and Ethyl, which are your jobbing products, you made a net profit of almost 1 cent a gallon. .8799?

A Yes.

Q On the sales realization method. In other words, you paid Maple Leaf 12.2420 cents per gallon and your expenses were

W. H. Jones.

2.3835 cents per gallon and your selling price was 15.50 cents. There is your 15½ cents?

A Yes.

Q Exactly 15.5054, and you made a net profit of .8799 cents. If you had dealt directly with the Imperial Oil, I do not know whether you would have or not but if you were given the same terms as were given to the Union, the Canadian, the North Star, and the Maple Leaf itself, you would have been a little better off, Mr. Jones?

A Yes, I would say that, Mr. Frawley.

Q Because right away out of the 5½ cents you would have increased that by about half a cent. So you would have been making almost 1½ cents a gallon on the two branded gasolines?

A Well, that is the way it would look theoretically.

Q Yes, I suppose you would just have kept that extra profit. You would not have brought down the tank waggon price another cent, would you?

A Well, as I say----

THE CHAIRMAN: Obviously that is a matter of policy that Mr. Jones would not determine.

A It would be such a small amount I do not know whether it would have altered the price or not.

Q MR. FRAWLEY: Now, do you finance any other dealers who do not rent company-owned stations, and if so, to what extent?

A Finance them in what way?

Q In any way?

A Yes, we finance equipment.

Q You sell them equipment, all kinds of service station

equipment?

A Not all kinds. We confine ours outside of two agencies where we finance air-compressors, all of ours is confined to underground storage tanks and pumps.

Q And you will give them up-to-date electric pumps, I suppose, finance them for the purchase of those?

A Yes, whatever they desire.

Q Do you charge them interest?

A No.

Q No interest, and what period of time do you give them to repay?

A We determine that. We will take a dealer, figure his set-up may be worth 100,000 gallons a year, take the amount of his investment and we may let the thing run for two or three years at half a cent a gallon, depending on what his gallonage might be and the amount of money involved in it.

Q Now, Mr. Jones, what is your attitude towards fixing a dealer margin?

Q MR. COMMISSIONER LIESETT: Before you pass from that, when you get this half cent a gallon to pay this financing, does that go on till only the capital is paid back or does it go on until the capital plus some additional sum is paid?

A Well, what we usually do, just to give you an example, if an underground storage tank were to cost us $100.00, in place of charging that man interest we would probably charge him $120,00 or $125.00 for the tank and it would take care of any interest or incidentals that might come up. As soon as you mention interest to a man he will say

T-3
17

W. H. Jones.

"Oh, well, I can get it off somebody else without interest." Your best method of approach is to put something on to your price to take care of that.

Q So you really do not give him the equipment at cost price without interest?

A No. You cannot because you have very probably other little items to take into consideration.

(Page 12,349 follows.)

C4
1

Q And over and above all that you charge a profit which takes care of the interest?

A Yes.

Q MR. FRAWLEY: Mr. Jones, what are your views on fixing the dealer margin, should the dealer margin be subject to recommendation by this Commission or should the margin be just what the traffic will bear, so much in Calgary, so much in Edmonton, something else in Lethbridge?

A What do you mean by the dealer margin, Mr. Frawley?

Q The margin between what the dealer pays and what he sells it at, the canopy spread it is sometimes called?

A Well I have not had any time to give that much thought.

Q Well to what extent are you in the retail business directly or indirectly?

A Well we are not in the retail business.

Q Now that new station we have just been talking about on Centre Street, are you interested, do you take an interest in the price at which that man sells to the public?

A No.

Q Not at all?

A No.

Q Now that is just what I want to examine, you are perfectly unconcerned about that, if he wanted to operate tomorrow on a 2 cent spread and put a big sign on his pump that he was offering standard gasoline at 18 cents instead of 20 cents, to the public of Calgary, what would you say, would you support that and say that was a fine idea or what would you do about it?

C4
2

A8 Well in the first place I do not think he could, you know, post a price of that nature.

Q No, but if he thought he could, you say he is free to do what he likes, if he thought he could do business on that margin and started to sell at 18 cents, would you take any steps to prevent that?

A We would not have any control over it.

Q Oh well----

A I mean we might----

Q After all if you are financing him, if you are financing him if you are financing him in the purchase of some equipment or some pump, you have something to say about the way he operates his business?

A That station does not appear to be operated that way. Everything is there and he pays for the goods he gets.

Q Then let us get away from that station, any station, I just want your general views about it, take all the stations in which you have any financial interest, even by way of loaning equipment or selling equipment, and other stations where you have no interest at all, what are your views on the dealer margin, it is a very important part of the business of this Commission?

A Well I think myself that it is a question that the dealer can answer a lot better than I can because I have never operated one of these stations and I do not know actually what it costs.

Q I see. What do you think about having two or three prices, consumer prices at the service station, more than one I should say?

A Well why would you want more than one?

Q Well we are certainly going to hear about that I imagine from Mr. Plotkins. You know the difficulty which existed last Spring in connection with the so-called violation of the regulation, in that Mr. Plotkins' stations establish more than one consumer price, one to the ordinary motorist, one to the commerical vehicle and so on, you know that situation, what do you think about that or have you any views about it?

A I would like to give it some thought first.

Q You might bear that in mind and come prepared to discuss something about the dealer margin. Now has your company got any credit card service?

A No sir.

Q Are your commission rates to bulk plants operated the same in all cases?

A Commission to our agents?

Q Yes?

A 2 cents a gallon, yes.

Q Now does your company feel that the distribution of gasoline through service stations is sufficiently adequate to justify no further licenses?

A You mean in the Province?

Q Yes?

A Oh no, I do not think that for one minute.

Q You want----

A I mean we are an organization that is just growing and we want a free hand to go into any part of the country of Province that we desire.

Q You want lots more licenses?

A The major companies have their set-ups,it is quite true when Mr. Miller was on the stand he did not think there should be any more but there are the other companies that are growing up.

Q He did not think there should be any more but he is doing some expanding on his own. However , your view is quite the contrary and not only for you, I suppose you think there should be no restriction?

A No restriction whatsoever.

Q To you or the Imperial Oil or anybody else?

A No.

Q The Standard Oil Company of California?

A Bring them in, let them come in, that is what we want.

Q Now then just let me repeat that, that is what we want, who wants that, the marketer, the refiner or the consumer?

A I am speaking for the public.

Q The consuming public?

A Yes.

Q You say that is what the consuming public wants and how is the consuming public going to benefit from more retail businesses?

A Well I am not suggesting it at all from that angle but I suggest that you bring all this capital into the Province you will make the Province that much better.

Q Make the Province that much better?

A Yes.

Q Capital that goes into the new service stations, that is so, but the gallonage of the Imperial Oil is diminished, the gallonage of the British American is diminished, let us stay with the Imperial, what could the Imperial Oil Company do then to bring down the selling price when it is diminished like that?

A It is all a matter of what percentage of business the Imperial Oil figures its share in the Province.

Q You mean there is what they own?

A Yes.

Q That they have a patent on?

A I think they have had a monopoly on the business long enough. Now let us give somebody else a chance.

Q Let us say the Standard Oil Company of California, they take away a lot of gallonage from the Imperial?

A Yes.

Q Your company grows and you take away gallonage because after all you get back to that, you are taking away gallonage from the big companies?

A Yes.

Q Then the Imperial will say "Well you cannot look to us for any reduction to the consumer, in the consumer price," that is what they will say, you are diminishing our gallonage and are putting our costs up, you will have to look elsewhere for a reduction?

A You might run into that one.

Q MR. PLOTKINS: Mr. Frawley, the evidence is not that way, that we take it away from the

Imperial, the Imperial gallonage is growing in spite of all this competition.

Q MR. FRAWLEY: That will be fine, you say the Imperial can increase its gallonage in the face of new licenses being granted right and left. However, we will probably have a lot of views about that from Mr. Plotkins. However, you do see some benefit then to the consumer in a reduced price and that will be one of the results?

A It might be.

Q Indeed it may?

Q MAJOR LIPSETT: Does it not involve more cost in distribution if you put another 100 or 500 distributing centres in this Province, has not the Province to pay for that?

A I would not say so necessarily, Mr. Commissioner, because regardless of whether we put them up or whether we do not, the Imperial Oil prices are posted and the prices in almost every case are determined by the price of crude in the field.

Q THE CHAIRMAN: Well is that so now, is that so, as crude goes up, the price of gasoline has gone down, has not the price of crude gone down also?

A Well every allowed price of crude has gone down, the reduction in the outlet is reduced, the price is reduced by that much, and your freight rates have changed which have taken up the balance. I have not figured it right out.

Q MR. FRAWLEY: Just appropos of that, I wanted to make a remark this morning, Mr. Chairman, the Imperial is on the eve of posting a new price but by virtue of the fact that the Imperial has disclaimed any interest in the service station price, consumer price, there is no assurance at all,-that is something which has to be very carefully looked at, the Imperial brings down, for the sake of this statement of mine let me say that the new price in Edmonton will be 19.4 cents posted tank waggon, it is 19.5 cents for Three Star Gasoline now, that is what the dealer in Edmonton, that is the new operation, the dealer in Edmonton has to pay the Imperial Oil 19.4 under the new set-up, now is the Edmonton motorist going to benefit by any part of it, and that goes back to the suggestion I made the other day to Mr. Halverson or Mr. Miller, for the sake of seeing that some of these things are done, the ultimate consumer, to see that the ultimate consumer got the benefit of the price changes, I suggested that they might very well go into the service station business just by way of a regulatory business, not the whole line, because you cannot get anything from them, they own stations and they rent them and they disclaim any interest, just as Mr. Jones is doing, in the, supposing the tank waggon price, supposing you had this new station of yours in the City of Edmonton, the price goes down to 19.4, would you do anything to see

that he passed that on to the consumer?

A No, we would not be materially interested in it.

Q No, you would not care at all, and it might be that it is just putting an extra 1/10 of a cent a gallon into the pockets of the dealer?

A Yes.

MR. PLOTKINS: In practice it will not work out that way.

Q MR. FRAWLEY: However , now, Mr. Jones, you have a note of the two or three points and that completes Mr. Jones' evidence.

MR. PLOTKINS: I have one question I would like to ask to clarify this very point.

Q MR. PLOTKINS: Mr. Frawley made mention that if you were dealing on the same basis of the other major agencies and received an extra half a cent, that that would be added profit, in your experience what would you do with that half a cent, be frank about it?

THE CHAIRMAN: If he had the handling of that half cent.

Q MR. PLOTKINS: Yes, if you had an extra half cent margin what would you do with it?

A Well I do not know. I would prefer our accountant to answer that question.

Q You are in the business handling this?

THE CHAIRMAN: You would go and see Mayland if you got an extra half cent.

C4
9

Q MR. PLOTKINS: I suggest to you that the larger the margin the more money available, not a half a cent but so many thousand dollars which is a half cent multiplied by your gallonage, that it is used to go out and get additional business?

A It could be used for that purpose.

Q Well is it not usually used that way?

A Yes.

Q Yes, so that no matter what the margin, the wider the margin the more money that is spent in getting business and adding to the cost of distribution?

THE CHAIRMAN: And if so, the consumer cannot hope for anything.

MR. PLOTKINS: That is the point.

THE CHAIRMAN: That is your point.

MR. PLOTKINS: That is from the wholesaling. Now that applies to the oil companies in handling the distributing margin between the cost of the refinery, that is the refinery cost and the selling cost to the dealer, is that not correct?

A Yes.

Q But when it comes to retail, the average company has no control over that spread, has it?

A Not to my knowledge anyway.

Q No, so the average dealer not being organized and not knowing what his costs are on an average or not being

able to determine his costs, you will agree with me that he cannot determine his costs where he carries on a varied business and where gasoline is not the major item of revenue; in other words, the average dealer does not keep a complicated set of books to apportion the cost between the different products?

A You are referring to where he has three or four businesses in one.

Q The average station has the sale of gasoline?

A Yes.

Q He sells oils, repairs, sale of tires, accessories and maybe coca-cola on the side?

A Yes.

Q So that he has a varied source of revenue?

A Yes.

Q And to your knowledge is not the average service station, as we understand that term, where the company has elaborate, I mean the complete service station, and leases it to the dealer, that dealer usually does not depend on the gasoline margin to operate or to live on, does he?

A No, he has to tie the whole thing in.

Q In fact he cannot exist on gasoline margins alone?

A Not unless he had a volume large enough to take care of it.

Q But under present existing circumstances, are there very many that have sufficient volume to permit them to live

on the gasoline spread?

A I do not think so.

Q So that the average dealer, not knowing his cost, but knowing his spread, he knows that?

A Yes.

Q All right, and hoping to attract other business that is more profitable, such as car repairs and greasing and selling of tires and accessories, what does he usually do when the price is reduced to him?

A On the gasoline?

Q Yes, on his gasoline sales?

A Well in nearly almost every instance that I notice, if it has been a half a cent a gallon or a cent a gallon, the reduction has been passed on to the public.

Q He usually reduces his price?

A Yes.

Q Competition with other stations forces him to do that?

A Yes.

Q So the public does get the benefit of any price reduction?

A In most instances.

Q So it has an effect on the posted tank waggon price?

A In almost every case, yes.

Q Now that does not always apply in the country, does it but that is true of the City?

A Well I do not follow the country very much, Mr. Plotkins.

Q No, but it is absolutely true of the City insofar as the retail gasoline price is concerned?

MR. FRAWLEY: How do you mean, does that

generally happen.

Q MR. PLOTKINS: It is always the case, is it not, in your opinion?

A No, it is not because the last half a cent reduction that took place in Calgary was not passed on to the consumer.

MR. FRAWLEY: We have you right there.

Q MR. PLOTKINS: There was a reason for that, was there not Mr. Jones?

A Obviously there must have been a reason.

Q Yes, now what is your experience with the 4½ cents a gallon. Is it profitable or can you operate a service station on a 4½ cent a gallon spread if you had to carry the equipment and the property and pay your bills normally?

A Well I cannot answer that for this, unless you give me some kind of a gallonage that you hope I could put through that station.

Q That is true. Now with the average service station, you know what the average service station sales are in Calgary?

A Yes.

Q What is it?

A Well we have some as high as 100,000 gallons.

Q I mean the average?

A Oh I would say the average for the City might be between 40 and 50 thousand.

Q 40 and 50 thousand?

A Gallons per year.

Q That would be around 150 gallons per day?

A Roughly.

C4
13

Q And that is recognizing last year's average?

A Yes.

Q So that on the 4½ cents spread and forgetting the other services, no service station operator would exist?

A Not on that spread.

MR. FRAWLEY: That is very sad in Edmonton where it is only 3 cent as against 4½ in Calgary.

Q MR. PLOTKINS: Have you any knowledge of an association between the service stations, existing now between the service station operators in Calgary, to retain the benefit of that 1/2 cent, and not being able to make any profit on the 4½ cents spread or 4 cents as it existed before?

A No I have not heard anything of that nature, but I believe there is a service station men's association in the City.

Q Yes.

A And if my memory serves me right when that last half a cent reduction came into effect there was one or two that reduced it and I believe from just conversation I overheard that they got together and said "Well the reduction is not going to go into effect". I think that was common knowledge.

Q So that it was as a result of considered action on the part of the service station operators and in that case the reduction was not passed on?

A I would think so.

THE CHAIRMAN: Anything more at the moment from this witness.

MR. FRAWLEY: No, that is all, thank you very much. If you would make a note of those things we wish.

THE CHAIRMAN: Any questions, Mr. Nolan?

MR. NOLAN: No thank you, sir.

THE CHAIRMAN: Now are you going to call Mr. Kemp, are you going to finish with this company or what.

MR. FRAWLEY: I might better finish with this company. Mr. Kemp is in town.

MR. SCRIMGEOUR: Mr. Kemp is away for two weeks.

MR. FRAWLEY: Then we will have go to on with Mr. Plotkins.

MR. PLOTKINS: I cannot go on tomorrow morning as I am going to be on the Arbitration.

MR. FRAWLEY: We will go on with the Becker Company then.

THE CHAIRMAN: You will be ready with something.

MR. FRAWLEY: Oh yes, Mr. Chairman.

(The investigation was here adjourned to be resumed at 9 A. M. July 28th.)

::::::::::::::::::

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 28th, 1939

VOLUME 110

I N D E X

Page

VOLUME 110 - July 28th, 1939

WITNESS:

E X H I B I T S

THOMAS LOGIE, having been sworn, examined by Mr. Frawley said:

Q Mr. Logie, you live in Calgary?

A Yes.

Q Where are you employed?

A The Lion Oils, Limited.

Q In what capacity?

A Chief Accountant.

Q You are a chartered accountant?

A No, I am not a chartered accountant. I served my articles for a chartered accountant.

Q You are not a member of the Institute?

A No sir.

Q Now I show you a document, what is that please?

A This is an interim report on the refining operations of the Lion Refining Company for 1938.

MR. FRAWLEY: I offer that as an Exhibit, Mr. Chairman.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "542")

Q MR. FRAWLEY: Mr. Logie, why do you call it an interim report on the refining operations for 1938 of the Lion Refining Company?

A Well while the costs are as complete as we can get them in total, we have not made a complete break-down of the operation, such as wages and basis of wages and so on.

MR. PLOTKINS: Might I qualify that. The position we are in, my Lord, is that I have attempted to break down our operations so as to get definite costs, not only of refining per gallon per product, each dif-

ferent product, but also we are now going to attempt to break down our sales operations so as to get definitely the realization from each product and that entails work of five people for six weeks and we are going to start in as soon as the Board is on holiday. Now that is quite a considerable expense----

THE CHAIRMAN: The Board is not hoping for a holiday.

MR. PLOTKINS: Well I hope so because we have some work to do besides.

THE CHAIRMAN: We are going to stop public Hearings for a while.

MR. PLOTKINS: Yes, that is what I meant.

THE CHAIRMAN: Counsel at least is entitled to a holiday and that includes you.

MR. PLOTKINS: Well a holiday for me means work in my own business. I feel that even although the expense is considerable for us that it will give the Commission figures that I do not think anyone else has presented and that is it will give you a break-down per product, definite price, applicable, or the cost or realization, applicable directly to the product so that there will be absolutely no dispute by any accountant or anyone else as to the facts. Now when we get that, I believe then the Commission, at least so far as our own operations are concerned, will have something to base their judgment on as to the relative position of our company in the matter of cost, the distribution of revenues, the various costs, to weigh against other companies' operations and for our own purposes too, it

may give us information which we do not have before so that it will be well worth our while.

Now another thing, the reason we call it an interim report too is that in the matter of marketing, while there has been considerable evidence given at the Inquiry so far, the underlying causes of price variations have not been disclosed and I am going to make an attempt to show all the factors that influence price and what I have in mind briefly is this, we have been told for instance, the Great West Distributors sells at basically tank waggon price; that is correct but what we have not been told is that not only the Great West Distributors but numerous other companies, the tank waggon price is only a basis and other matters, other items, intervene with different conditions that have an effect on reducing that tank waggon price according to competition as it presents itself from place to place and from time to time and what I have in mind, one particular method which has been pursued for a number of years, you see the fear of ourselves and the Great West Distributors and the other smaller companies is a price war because we know definitely that we cannot face a price war. We have not the resources. We have not the possibilities of weathering a price war so that the aim and purpose of every experienced marketer is to show a trend of tank waggon and to endeavour to sell his products and meet the competition of all other companies through subterfuge, such as freight allowances, in the form for instance, I have one particular case in mind that caused a lot of trouble between us and the other companies in the

last two or three years since the development of the trucking transportation all over the Province it has been as has been shown, there has been a difference between the cost of delivering goods by truck and delivering it by tank car and that difference has been reflected in price cutting or at least what the Imperial called price cutting because the owner, I mean the dealer or the purchaser of goods for resale, he did not take into consideration the freight rate, all he took into consideration in arriving at the sale price in his own district was his cost; that is the way the normal man does it, so for example we will take a point 50 miles out of Edmonton South East. The freight rate is to Edmonton and back to that point, but the truck cuts off considerable. Now when our dealer who buys on an F. O. B. refinery basis wants to sell in that district he disregards the freight rate, which had the effect of raising the price 2 cents, and he sold on his cost plus a reasonable trucking charge and that trucking charge was not set by him only, it was set by competition of other truckers in that district and the result was when he sold to the farmers his price was 2 and 3 cents below the established Imperial price at that point and immediately our dealer and ourselves were accused of price cutting. Well we were making plenty of money on our basis. We were making a good profit. The dealer was making a good profit and the farmer or consumer was getting the benefit of the price as reflected on an F. O. B. refinery basis plus the cost of transportation, plus a reasonable, I call it profit, the Imperial calls

it commission.

Now in the case of the Great West Distributors for instance they had a point, I am giving that as an illustration and that is the thing I am going to have to deal with in detail, at a point 50 miles South East of Edmonton, therefore the competitive price was 2 cents below, and what I mean by competitive, our price, our dealer's price and other companies who have dealers situated or marketing in the same way to the Great West Distributors, their agents sold, and the tickets will show tank waggon price, no doubt about that, why, because Mr. MacKenzie does not wish to start any price war any more than I do but after going into the matter with Mr. MacKenzie, when I complained that his man was doing this and that, I put it up to him that possibly he was giving a freight allowance. First he denied it and then I think correctly, he did not know, but afterwards in digging into his office he found an invoice or at least a charge 2.4 cents per gallon freight allowance, which meant that his tank waggon, the ticket that it was sold under, did not mean anything. It was that price less 2.4. Now it is things like that, and that is only one instance and on one occasion. There is going to be hundreds of these typical things because it just takes ingenuity to figure out new ways of doing it and everbody has his own way of doing it and when I deal with these things the Commission will then have a better perspective of the price situation and may come to a different conclusion because we have the Maple Leaf, we have the Canadian Oils and we are told they are dummy companies,

we are told this-----

MR. FRAWLEY: Who said that.

MR. PLOTKINS: The press says that Mr. Jones said that yesterday.

THE CHAIRMAN: You say "We are told this", and "we are told that". Mr. Jones spoke of dummy set-ups yesterday.

MR. PLOTKINS: The facts are that it is true, on the face of it they do not compete but actually they do compete becsuse even the Maple Leaf has ways and means to meet our competition, Great West competition, somebody else's competition, even although the tickets, the sales tickets, the invoices that Mr. Frawley can get and somebody else can get, do not reflect it, so it is these things I am going to deal with later on and it is going to mean quite a lot of work because I am going to try to substantiate these things if I can and that is why we call this an interim report and when I get this other before the Commission, our ticket shows what we sell, there is no rebate and no one hundred and one other devices.

THE CHAIRMAN: This may be a very interesting discussion for this Commission but equally we want it useful to us and to that end we want it examined by the Commission's expert as you can readily understand.

MR. PLOTKINS: Yes.

THE CHAIRMAN: If they subscribe to it it has great force and if they criticize it you want to have an opportunity of answering their criticisms.

MR. PLOTKINS: That is correct.

THE CHAIRMAN: Now with those considerations in mind and bearing in mind that we all want to be done, when do you think you would have that report, what you would term the final report?

MR. PLOTKINS: I have unfortunately to attend what we call an arbitration case. We have been at it for weeks also and I feel that that is going to finish today or tomorrow and after that I figure a month because I cannot work at it steadily, unfortunately.

THE CHAIRMAN: Well Mr. Frawley, what Mr. Plotkins is now saying is unquestionably of interest. He says he will make a new and different approach that will provide us with information which we have not had heretofore. Well now we welcome any such attempt whether it is successful or not, that remains to be seen but we welcome certainly the attempt. Now there is the practical question of time, which I was just putting to Mr. Plotkins and what have you to say about that?

MR. FRAWLEY: I certainly welcome Mr. Plotkins' attempt and I hope I will not be misunderstood when I offer a slight criticism, that Mr. Plotkins is bringing it now to our attention for the first time and we have been, when Mr. Plotkins has known he was expected to make a submission with respect to his refining and marketing operations for a good many weeks past, but that is done, we will face the situation as we have it, I certainly want to have the Commission, the Commission can certainly struggle with this alone of course but I want to help the Commission by having Mr. Cottle and Dr. Frey apply their minds to it.

T. Logie

THE CHAIRMAN: Mr. Plotkins says he has seen everybody else's approach, as I am appreciating his position. He says "You have that right now, or something just as good, but I am going to do something that is more comprehensive."

MR. FRAWLEY: As I understand it is something in the light of the evidence we have heard.

THE CHAIRMAN: Yes, he says "To do the same thing on my part would not give the Commission a true picture, and I am going to make an effort to do something else," and that should be encouraged and not discouraged.

MR. FRAWLEY: To be perfectly fair, perhaps my criticism is not of very great force, I mean as to his being late. My position simply is Doctor Frey has a great deal of work to do with Mr. Cottle and it is almost impossible to say how soon he would need to have Mr. Plotkins' position. But I would suggest regardless of whether the Commission is sitting or not, I would like to have Mr. Plotkins' survey completed just as soon as possible and sent off to Doctor Frey and sent to Mr.Cottle, in anticipation of its being submitted. Because after all merely submitting it can be done later.

THE CHAIRMAN: There can be no objection to that, Mr. Plotkins.

MR. PLOTKINS: No, and I will do my best, taking into consideration the fact I have to do work, to meet the wishes of Counsel to the Commission.

MR. FRAWLEY: I would ask when you will

T. Logie

be ready to give that to the Commission. The Commission must stop some time. Mr. Justice MacGillivray cannot remain on this and that is the case for all of us, and Major Lipsett, too, for that matter. We have more or less of a dead-line. We must get it into the hands of Mr. Cottle and Doctor Frey, within say, at the very latest, three weeks from now, if you can possibly do it.

MR. PLOTKINS: I will do my best. This would not have happened if the other companies had made a submission of the intricate workings. The purpose of this is not to condemn anyone. It is to show the situation and show how this competitive situation works in Alberta in respect to prices of petroleum products.

THE CHAIRMAN: What do you think you can do, Mr. Plotkins? We are not hurrying you. We are trying to make your work useful to us. It only is useful when it has had critical examination, because we do not purport to be accountants, as you will readily understand, nor engineers nor anything else that has to do with the industry. To be useful to us it must be examined by one whom we conceive to be an independent expert. It does not on that account follow that his criticisms will be accepted in toto by us, but we want them examined. What is the earliest moment you can have this in our hands and put on the train and then you will hear his comments here on it in open court and have an opportunity of making reply.

MR. PLOTKINS: Of course, My Lord, I cannot definitely state because when I start in - I have already accumulated quite a considerable amount of material, but

T. Logie

I cannot definitely state as to time but I think in three weeks, I will make an attempt to get it completed and get it to Commission Counsel in three weeks. I have to offer a suggestion in that case. Am I to understand it will be submitted to critical examination of Doctor Frey and Mr. Cottle?

THE CHAIRMAN: Yes.

MR. PLOTKINS: Mr. Cottle is familiar with conditions in Alberta as to prices.

THE CHAIRMAN: Each of whom will make their criticism in public here.

MR. PLOTKINS: Yes.

THE CHAIRMAN: If they have any criticism. It may be affirmation.

MR. PLOTKINS: What I do think is they should get someone that is not connected with the oil business. Neither Mr. Frey nor Mr. Cottle are, but get someone that also has a background of understanding in connection with the mechanics of prices and competition. Because after all Doctor Frey, I have listened to Doctor Frey and he is a very good man but he deals with things in the abstract. We are dealing with concrete cases here. There is an intricate relationship, in other words, there is justification for the action of this company and that company in the light of conditions, and it is only another marketer or man who has been through the mill that can appreciate properly and criticize properly or assist the Commission properly in giving the under-lying reasons. I may give my opinion but after all I may be biased, where an outsider fully familiar

with marketing conditions would not be, because after all the mechanics of marketing here are the same as in the States. There may be local reasons. But that is the basis of this Investigation, price. I would like to make the suggestion to the Commission to have these two experts assisted by a third man if he can be found, a marketing expert.

THE CHAIRMAN: You satisfy Commission Counsel that he should call in a third man, all right. That is a matter of necessity and expediency. That is all. In the meantime your report is your report.

MR. PLOTKINS: Yes.

THE CHAIRMAN: Whoever else there may be or may not be, it has to be examined by Doctor Frey and Mr. Cottle. Then you fix a dead-line, I would say in order for it to be useful, you must make an effort to get it out - and you would not be doing it at all if you did not want it to be useful because it would be an expense and trouble to do it - but you seem to be in accord both of you on three weeks. We will leave it at that. How about this report?

MR. FRAWLEY: I want to examine Mr. Logie for a few minutes.

THE CHAIRMAN: Major Lipsett suggests I should say that before Doctor Frey is called upon to criticize it, it will be right and proper that whoever prepared it, you or whoever speaks concerning it, will have an opportunity of going through it. There may be things that Doctor Frey or Mr. Cottle do not appreciate in it which again may change their views when they hear it explained.

T. Logie

MR. FRAWLEY: It would have to be made evidence anyway before Doctor Frey could comment on it.

THE CHAIRMAN: Yes, and all explanatory observations made.

MR. FRAWLEY: There would be the mechanics of proving it first. Even if it goes up to Washington, it is not part of the record until it goes in in the box.

THE CHAIRMAN: You may have a question that you want to put to Doctor Frey and Mr. Cottle, after hearing them. And the Witness may explain it satisfactorily and Doctor Frey's then opinion about something may be changed by that explanation. All right, I think we are all clear now.

Q MR. FRAWLEY: Now, Mr. Logie, I want to have some comment by you on this document Exhibit "542". What it is. Perhaps you should read the first page or so that contains the only memorandum and then say what you have to say about the statements you file along with it?

A Then reading Page 1 of the Lion Refining Company Interim Report on refining operations, 1938.

Lion Refining Company is the registered firm name of Leon L. Plotkins, operating a refinery in Manchester Sub-Division south of Calgary.

The company operates a straight-run topping plant having a capacity of 550 barrels per day, utilizing a down draft, centre fired, multiburner tube still of our own design together with a multi-draw fractionating tower with our own design of internal steam stripping sections which permits the withdrawal of five streams continuously from

T. Logie

the one tower. All streams are regulated at will with regard to boiling range and flash point over a wide range. Usual auxiliary equipment such as pumps, controls, condensors, boilers, compressed air and tankage is included.

The treating plant is a semi-continuous type doctor treating plant with a chemical regenerator which permits the regeneration economically of spent chemicals. There has also been added recently a lube blending plant to blend neutrals and Bright Stocks to various S. A.E. grades of motor oil.

Highest quality products are manufactured consistent with available crude supplies. Costs of refining are as low as latest type of straight-run refining equipment and good, sound, personal management of the proprietor can make it, having regard to the conditions of operation.

The capital invested in the above assets as at December 31st, 1938, after allowance for depreciation is $17,613.87.

The refinery maintains its own completely equipped shop and machinists to keep the equipment in running order and on engineering office to plan and design new equipment and which also supervises the erection of same.

All operations of the refinery are closely controlled from the laboratory office where a qualified chemist with adequate staff and equipment maintains the product quality.

I might add that that premise there is prepared for me by our Engineering Department.

Q MR. PLOTKINS: At this point will you explain

T. Logie

the reason for the small capital investment shown here?

A I do not understand you.

Q MR. FRAWLEY: $17,000.00?

MR. PLOTKINS: The last Schedule Number 3 gives you the total investment and then the depreciated book value.

A You mean why the plant is only worth $17,613.00 at as today?

Q Yes?

A The plant as at December 31 was worth $40,284.43, less accumulated depreciation as at that date of $24,899.30. During the year depreciation was provided in the amount of $5,080.05, leaving the net book value as at December 31, 1938, of $17,613.87.

Q MR. FRAWLEY: Do you want to say something about the statement?

A I do not know just the procedure which would be easiest for the Commission, whether I should read this or whether they should ask questions?

Q Do not read it. Just say what Statement "A" is, what it purports to show and what it finally results in?

A Exhibit "A" purports to show a statement of profit and loss by products for the year 1938. It shows the sales by products and the total value of those gallons as set forth in Schedule Number 2 opposite each product. It also shows the net margin per gallon by products. In other words, on Ethyl our net margin was a loss of .814¢ a gallon.

Q MR. COMMISSIONER LIPSETT: That Ethyl loss, you were not manufacturing that?

A No, Sir. Ethyl and Gold gasoline are products which we buy

from other companies.

Q That was really a marketing loss?

A Yes, that is really what it is. I checked the records and I found that in the Ethyl gasoline there was considerable shrinkage and in the Gold gasoline there was considerable overage, and the explanation given to me regarding that was when one of the stations ran out of Gold gasoline, Ethyl was substituted there.

Q So you really.....?

A You should take the combined of those two products and that would give a net margin of .424¢ per gallon, slightly under half a cent.

Q Around $2,000.00 for the two, profit?

A That is right.

Q MR. FRAWLEY: You think it is quite satisfactory to put these two job products in with the manufactured products like that?

MR. PLOTKINS: I will explain that. Due to the fact we have to carry a certain amount of storage and that we have to test those products through our laboratory in order to maintain quality, all products are shipped in to the refinery and handled by the refinery and then resold to Lion Oils Limited. Now there is another reason. The Dominion Government has granted the Lion Refining Company a sales tax license, and they won't grant one, in fact it is not that they won't, but we certainly don't want one, for the Lion Oils Limited, due to complications. We have to submit a lot of statements and refer to a lot of things and so forth and so on, and they dispute values. So that the

practical purpose is all of the products are purchased by the Refining Company, handled by them and resold to the marketing company. That is the reason why you find them in here. In other words, loss of handling and additional expenses and surveying are borne by the refinery and transferred in the form of a small charge to the marketing company for handling and looking after.

MR. COMMISSIONER LIPSETT: That is Lion Oils Limited?

A Yes.

Q MR. FRAWLEY: So the Lion Refining Company sells its products to the Lion Oils Limited, and the Lion Oils Limited sells to the public?

MR. PLOTKINS: That is correct.

MR. FRAWLEY: Is there any particular reason for that? Is that set up for profit reasons?

MR. PLOTKINS: For profit reasons mainly and to put ourselves on a par with other companies to be able to pay taxes on a comparable basis. If we had it all in one, our taxes would be considerably higher.

Q MR. FRAWLEY: All right. The statement shows the net margins you made or lost per gallon and everything is on this page including the two products Ethyl and regular which you purchased and all other products which you sold.

MR. PLOTKINS: No, there is another one. You notice lamp kerosene.

MR. FRAWLEY: Lamp kerosene you also purchase?

MR. PLOTKINS: No. But some time in 1938,

T. Logie

I would assume two-thirds of the year, we purchased it, but in the last part of the year we installed equipment and we are now manufacturing it.

Q MR. FRAWLEY: And then all of the rest you manufacture except these three?

MR. PLOTKINS: Except a certain grade of naphtha that we purchase.

MR. FRAWLEY: Mr. Cottle suggests that the sale, the top line here, are sales from the Lion Refining Company to the Lion Oils Limited?

A Yes.

Q That is what they are completely without exception, sales to Lion Oils Limited?

A If there is any little sales made, not made direct to Lion Oils Limited, it certainly is not enough to influence these statements.

MR. PLOTKINS: I do not think there is any.

MR. FRAWLEY: Mr. Cottle may take it for his purposes and perhaps in actual facts that the sales represented here are the sales from the Lion Refining Company to Lion Oils Limited?

A Yes.

Q And your net margin per gallon of margin of profit and loss between the Lion Refining Company and the Lion Oils Limited?

A That is correct.

MR. PLOTKINS: The average profit for a gallon for the period shows what?

A Slightly less than ½¢ a gallon, .478¢ per gallon.

Q MR. FRAWLEY: Exhibit "B"?

T. Logie

A Exhibit "B" is an analysis of the recoveries and manufactured costs for the year 1938.

Q That word should be manufacturing, should it not?

A Yes, manufacturing.

Q Mr. Cottle says manufactured is the right word because it includes crude oil used. What does the statement do?

A It shows the amount of crude and casing head used during the year to manufacture the various products of the refinery. The top section there gives the recoveries, such as Lion White 941,086 gallons, and so on, of a recovery out of 2,352,488 gallons of crude and 390,144 gallons of casing head.

Q Yes?

A The statement of costs of crude used for instance of $98,330.98 is set out in Schedule Number 3, how that amount is arrived at. Showing a cost per gallon of 4.18¢.

Q Yes?

A Casing head used $33,245.28 is also shown on Exhibit "C" showing the cost of 8.521¢ per gallon and manufacturing costs of $25,382.57 as set out in detail on Exhibit "C". So that the total cost of manufacturing is per gallon 5.723¢.

Q Then will you explain the bottom part, Statement of Recoveries and Costs?

MR. COMMISSIONER LIPSETT: Does that 5.723, does that include Ethyl and Gold that was purchased?

A No, Sir. This is our own manufacturing cost. Recoveries and costs, the costs are arrived at on the sales realization method. That is the net-back to the refiner.

The recoveries of course are taken from the top part of the statement, Lion White, 941,086.

MR. PLOTKINS: Pardon me. In this case, My Lord, we have a definite net-back. There is no dispute and there is no marketing cost and there is no extraneous matters. The amount that is shown on the top, the figures shown on the top of Exhibit "A" is the actual amount of money with no deductions whatsoever that the Lion Refining Company has received. So that we can correlate that back to the cost of crude and casing head and labor.

Q MR. COTTLE: May I interrupt for a moment? You say you have a definite net-back. You have a net-back based on the price that the Lion Oils purchases from the Lion Refining?

MR. PLOTKINS: Yes.

MR. COTTLE: It is not really a definite net-back from the ultimate sale.

MR. PLOTKINS: Yes, we will add to that figure what the marketing company receives. But for the time being that is what the refinery receives.

MR. COTTLE: It is a definite net-back inasmuch as it is what the Lion Oils pays the refinery for the product.

MR. PLOTKINS: Yes, the same as the Great West pays the B. A. or anybody else. There is no dispute as to those figures. You may disagree later on with the marketing costs, that may be qualified by this matter and that matter.

MR. COTTLE: There is no suggestion of

T. Logie

any dispute about the accuracy of these figures, but the difficulty is it is a payment by Lion Oils Limited to the Lion Refining.

MR. PLOTKINS: Yes, and we say Lion White the cost per gallon is 7.966¢. That is the actual figure, is it, Mr.Logie?

MR. FRAWLEY: Might I suggest that Mr. Logie go through with this Lion White, because it does not mean anything to us to say one times two, in the fourth column.

MR. PLOTKINS: I just want to explain it before he goes ahead.

Q MR. FRAWLEY: Take the Lion White and explain what it means. Gallons in the first column and percent in the next column.

MR. COMMISSIONER LIPSETT: Where are you at?

A Exhibit "B". The Lion White, we recovered 941,086 gallons which is 34.313% of the total amount recovered from the crude and casing head used.

Q MR. FRAWLEY: What figure?

A 2,742.632. The average selling price, that is the abbreviation there, the average selling price or net-back to the refinery is -

Q MR. PLOTKINS: Why do you say average selling price? Were there any changes during the year?

A Yes, there were price changes during the year.

Q MR. FRAWLEY: What does the 1 mean after the word percentage?

A Well really that 1 times 2, which is after the average

T. Logie

selling price, gives you the product.

Q No, but what does the 1 mean? It is the column?

A That is right. 1 times 2, that is the average selling price, gives you the product. Now if you multiplied that figure and that figure together you would get 32.204.

Q MR. FRAWLEY: What is that 1 there? What does it represent?

A It merely makes it easier, at least I hoped it would, to show that this column here was the result of these two columns.

Q That is column number 1, which really is column number 2, of course?

MR. PLOTKINS: Is it not simple to say it is a reference number.

MR. FRAWLEY: It is a reference number?

A You could number it number 2 if it would make it easier for you to understand.

Q Carry on, then?

THE CHAIRMAN: Do you understand it?

MR. FRAWLEY: Yes, I understand it.

THE CHAIRMAN: Tell me.

MR. FRAWLEY: 1 is only there to indicate for further reference that it is that column with these percentages starting at 34.313 and so on. Then the next one average S. P. is called number 2. They are only called 1 and 2 for the purposes of the next column, because the next column is the result of multiplying these two columns, percentage and average selling price. That is all it means.

A It is 1 times 2.

T. Logie

THE CHAIRMAN: Yes, go ahead?

A When you come to the average selling price or net-back to the refinery, you arrive at that 9.403¢. I think it is in Schedule Number 2 which shows an analysis of sales by products giving the total number of gallons sold and the amount received for those gallons, and the average is the fourth column which is headed, - that is the product total of 34.313 and 9.403 multiplied together, and then you get the total of that column 67,548. From that you get the relation of Lion White to that total which is in column number.....

Q MR. FRAWLEY: The percentage?

A That is right. Expressed in percentages. So that means that Lion White absorbs 47.765 of the total cost of manufacturing.

Q Yes?

Q MR. COTTLE: In other words, Mr. Logie, the sales realization value of Lion White is 47.765% of the total sales realization value of all products recovered from your crude oil during the year?

A Yes, recovered. So that we take that percentage of 47.765 and multiply it into the total manufacturing cost of $156,958.83, and the cost of Lion White is $74,971.39.

(Go to Page 12,385)

Q MR. COTTLE: And what you have done here is compute your costs on recoveries during the year on what is known as the sales realization method of appropriating joint costs?

A That is right.

Q And you set out first to find the proportion of sales realization value of each product in relation to total product and you merely apportion the total cost to all products, each of them in relation to the sales realization of each product?

A Yes.

MR. PLOTKINS: The total receipts, not the total cost. We apportion the total receipts of all products.

WITNESS: No.

MR. COTTLE: No, I think not Mr. Plotkins.

WITNESS: No.

Q MR. COTTLE: You apportion the total realization in relation to the realization of each product?

MR. PLOTKINS: Yes, the sales realization is what we receive.

THE CHAIRMAN: Now just a minute, we want to hear the witness and not a general discussion, what do you say to that?

A I think Mr. Cottle's explanation is perfectly correct in that respect. We will go over that again if it is all right.

MR. COTTLE: Shall I repeat it, Mr. Chairman?

THE CHAIRMAN: Yes.

Q MR. COTTLE: What you have done, Mr. Logie is, ---

Q MAJOR LIPSETT: Will you tell us what this $67,548.00 is before you begin that?

MR. COTTLE: The figure of $67,548.00 is the sum of the figures in the column.

MAJOR LIPSETT: I know that but what is it?

MR. COTTLE: Now the figures in the column are the figures of the percentage of recovery of each product to the total recovery of all products multiplied by the unit value of each; the percentage of recovery of Lion White for instance is 34.13% of the total crude and casing-head run through the still and Mr. Logie has valued that 34% at 9.403 cents per gallon. Now if you consider the 100 at the bottom of column one as 100 gallons instead of 100%, then we may say that the first figure in the column headed "1 X 2" is a result of multiplying 34.31 gallons by 9.403 cents per gallon arriving at the sum which would be $3.2264 columns, the column 1.2 is merely used to arrive at the percentage, I mean in the next column, which is headed "Percent of Cost" in order to get the percentage of value of recovery of the Lion White to the total value of all products, is that right, Mr. Logie?

A That is right.

Q MR. COTTLE: What could have been done, Mr. Commissioner, is the 941,000 gallons in the first column, could have been multiplied by the figure in the third column of 9.403 cents to arrive at the total value, the total value of gallons 941,000 odd could have been multiplied by 9.403 cents per gallon arriving at the total sum of money,

and the same thing could have been done by each of the other products and then the total values obtained would represent the gross value of recoveries from the crude and that could have been reduced to a percentage or the total cost could have been appropriated to each of the products. There is really no point in reducing the second column headed "1", to a percentage and then multiplying although it is quite a common method. In any case, no matter how you do it you come to the final figure which is the significant one of present cost, that present cost, which totals 100 is, I would say it is a misnomer to head the column "Present Cost" because that column represents the percentage of value of the Lion White and each of the other products, the value of all of the products.

MAJOR LIPSETT: And that Lion White is his own manufacture, that is his third structure?

MR. COTTLE: Yes, all of these, I take it, are recoveries from the crude, is that right, Mr. Logie?

A That is right.

Q The Schedule is really a simple application of the well known principle of sales realization methods to determine joint costs?

A I do not agree with you that the column of "Present Cost" is a misnomer because that percentage is definitely applied to your total cost to arrive at the cost per gallon.

Q Well I say it is a misnomer, Mr. Logie, because really it is the result of determining a value of the various products and then it is used as a basis for the percentage of cost?

A That is right.

Q Perhaps it should have two headings, one what it is and the other what it is used for?

A Yes.

Q You have headed it for what it is used for?

A That is right.

MR. FRAWLEY: All right, Mr. Logie.

A Will I go on from there?

Q MAJOR LIPSETT: Sorry to interrupt you again, that column, that average manufacturing cost which you have, 5.723, Exhibit "C"?

A Yes, that 5.723 is taking the total cost per gallon as based on the total number of gallons of crude used and the total number of gallons of casing-head used which makes the total on Exhibit "D" of 2,742,632.

Q Oh, what average gross cost per gallon in Exhibit "B", would that work out at 5.723?

A I do not quite understand you sir.

Q In Exhibit "B" in the last column you give cost per gallon?

A Yes.

Q Various figures for the various commodities?

A No, I think that that would probably work out at a little higher figure because the recoveries are only 2,477,386, you see that figure 2,477,386?

Q Yes.

A Well that is the total number of gallons recovered and if you were to divide that into $156,958.63 it would give a figure slightly higher than 5.723.

Q MR. COTTLE: Mr. Logie, I may have many other questions to ask but there is one that occurs to

me at the moment. I notice on Exhibit "B" on the line, position on hand December 31st, you show under heading of "Diesel" 167,502 gallons and under "Fuel Oil" you show 356,379 gallons; now following first that Diesel Oil, I observe that your total recovery from crude oil during the year, of diesel, was 163,699 gallons; now that total recovery is something less than the total amount of diesel fuel which you had on hand of 167,502 gallons, indicating that all of the diesel fuel that was sold during the year was on hand at the beginning of the year and that you had no market during the year for any of your production during the year, is that a correct deduction to make from the submission?

A Yes.

Q Going to fuel oil I observe that the total inventory at the close of the year was 356,379 gallons, the total recoveries from your plant during the year were 441,457 gallons, the difference being in round figures 85,000 gallons; from that I conclude that of the total production of 441,000 during the year you sold only 85,000 gallons; in other words you sold something less than 20% of the production of fuel oil produced during the year, is that deduction correct?

A Yes.

Q Then under recoveries and costs I also observe that you have used as your factor in column 3, a value of 2.181 cents per gallon for fuel oil, the total production?

A Yes.

Q And the 2.181 cents is the average value on your actual sales

of fuel oil during the year shown on Schedule 2, the last line of the first part, is that correct?

A That is correct.

Q Now the 2.181 cents for fuel oil is the average value of the sale of 181,824 gallons of fuel oil, some of which was on hand at the first of the year but the total sales represent approximately half of your total production during the year, which was, pardon me, something less than half of your total production during the year which was 441,451 gallons, is that correct?

A Yes.

Q Now obviously had there been ---

MR. FRAWLEY: That is right, did he answer?

A Yes.

Q MR. COTTLE: Obviously had there been a right ready market for all of the fuel oil which you had on hand at the close of the year which represented over 80% of the total production during the year it would all have been sold would it not, Mr. Logie?

A Yes.

Q Would it be a fair inference to make that were you able to get the price of 2.181 cents for all of the fuel oil which was in the inventory at the close of the year you would have been glad to have got it?

A Speaking for myself, that seems to be a logical conclusion. What Mr. Plotkins had in mind I do not know.

Q Would it be a fair assumption to make that the value of your inventory at the close of the year would be something considerably less than 2.181 cents per gallon or something less than the figures you have arrived at on Exhibit "B"

of 1.848 cents per gallon?

A You say that our inventory would be priced at an inventory at less than 1.848?

Q No, I say would the proper value of your inventory at the close of the year be the unit figure of something less than 1.848 cents per gallon in view of the fact that you were unable to sell more than something less than 20% of the total production?

A It is quite probable. It depends on what the outlook probably is at the end of the year. If you feel there is either a sale for the product or a use for the product at that value of 1.848 I think that that is the fair value.

Q If there was a sale?

A Or some other.

Q Obviously there was not a sale otherwise it would have been sold, would it not?

A That is what I say, that is a natural assumption I think but I do not know what Mr. Plotkins may have had in mind at that time and the explanation given to me regarding including that amount of diesel and fuel oil and these operating costs was that the company as at December 31st intended in erecting immediately a cracking plant and that this value of 1.848 and the diesel is I think ----

Q 4.965?

A 4.965 was fair in view of the fact that that would be used for cracking purposes.

Q It being approximately 65 cents per barrel?

A Yes.

Q A little over half the value of crude oil containing all of

the gasoline?

A Yes.

Q Will the same remarks apply to diesel fuel, even to a greater extent, because your inventory is even greater than the total production for the year, so that you might say you did not soll a drop of diesel oil that was produced during the year?

A Yes.

Q Well what value was placed on the Diesel oil and fuel oil by your auditors in the balance sheet prepared by them?

A I do not think that is a fair question when we are discussing operating statements, I mean the auditors obviously make certain adjustments for other reasons and will, if they did write this down considerably I do not think it is from the operating standpoint so that we can get the proper picture of our business.

Q The auditors did write it down?

A I said if they did.

Q MR. FRAWLEY: The fairness or otherwise does not matter, this has to be all placed before the Commission and the Commission will have to judge all these things, Mr. Logie. I think I should ask you to put in your auditor's balance sheet made by Henderson and Teare, are you able to do that now?

A Well I think I have a copy here but I do not know just what my principal's reaction to putting that in is concerned.

Q THE CHAIRMAN: Whatever they think about it you have it?

A Yes.

MR. COTTLE: I may say, Mr. Chairman, I am bringing this out ---

THE CHAIRMAN: It will not be your responsibility.

MR. FRAWLEY: No.

THE CHAIRMAN: All right.

MR. COTTLE: If you will recall, Dr. Brown made a reference to skimming plants and the difficulties they experience and the handicap they were placed under in getting rid of what are called "bottoms" and of course these two products are the bottoms in a skimming plant operation.

MAJOR LIPSETT: It would not quite necessarily follow, Mr. Cottle, would it that he should now put in this fuel oil at 1.848 simply because he has not been able to sell it at 2.181 during the year, I mean one would not follow from the other, he might have been able to sell it if he had taken cost for it?

MR. COTTLE: That is the question, what it might have been sold at; the average of all sales that were made was 2.181.

MAJOR LIPSETT: Yes.

THE CHAIRMAN: Just a moment until this is marked. That will be Exhibit "543".

THE CHAIRMAN: What is that called?

MR. FRAWLEY: Let us stop before it is marked, I see this is an unsigned copy but this was made in the office of your auditors?

A Yes.

Q THE CHAIRMAN: And it is a true copy?

A Yes.

THE CHAIRMAN: And what is it?

MR. FRAWLEY: It is called "Lion Refining Company, Calgary, Alberta, L. L. Plotkins, Proprietor, Report on Examination of accounts for the year ended December 31, 1938. Henderson and Teare, Chartered Accountants."

(AUDITOR'S STATEMENT OF LION OIL PRODUCED AND MARKED EXHIBIT "543".)

Q Now then would you just run through the rest of the Exhibit then?

A The rest of the Exhibit?

Q The rest of the whole Exhibit, Exhibit "542" I mean?

A Yes, we have the perecentage of cost for Lion White of 47.765%; the cost is arrived at by multiplying that percentage into the total cost of manufacturing which is $156,958.83, giving a figure of ---

Q Which one are you reading from now?

A Exhibit "B".

Q You were still on "B"?

A Yes, giving the total cost of Lion White of $74,971.39; that is reduced to cost per gallon by dividing 94,186 gallons into the $74,971.39 giving a cost per gallon of 7.966 cents; that is the method used in arriving at the cost of the product per gallon mentioned ---

Q MR. COTTLE: And the total cost column total $156,958.83 which gives you the figure to place on Exhibit "A" on the line opposite the word "Costs of Manufacturing".

A Yes.

Q MR. FRAWLEY: Yes, go right on.

A Exhibit "C" ---

Q MAJOR LIPSETT: What is the average of those costs on Exhibit "B", Mr. Logie, which are shown in Exhibit "B"?

A What is the average?

Q What is the average cost per gallon?

A Lion White is 7.966.

Q Yes but what is the average over all, over all your products?

MR. COTTLE: It is approximately 6.4 cents, Mr. Commissioner.

WITNESS: Yes.

MR. COTTLE: That figure is obtained by dividing $156,958.83 by the total gallons of 2,477,386 and I have arrived at it roughly.

MAJOR LIPSETT: I was looking at the difference between that apparent percentage on that Exhibit "B" and the percentage as shown on Exhibit "C"?

A Yes, well that difference is explained ---

MR. COTTLE: The difference would be explained by dividing the same figure $156,958.83 by 2,742,632 gallons which is the total crude charged as compared with dividing it by the total products realized, 2,477,386 gallons, both of those figures are shown on Exhibit "B", the total gallonage charged is 2,742,632 and dividing that into the total cost of $156,958.83 is the figure at the bottom of Exhibit "C" which is 5.723 cents, is that right, Mr. Logie?

T. Logie

A That is right.

Q Now the average of the cost of the production is obtained by dividing the same total cost figure on Exhibit "B", by the total recoveries from the crude which are 2,477,386 gallons, giving as I make it approximately 6.4 cents per gallon?

A Yes.

MR. FRAWLEY: All right, Mr. Logie.

A Exhibit "C" ---

MAJOR LIPSETT: That is the real cost then, is it, Mr. Cottle, 6.4 cents?

MR. COTTLE: Oh I would not say that is "real cost". You get into many discussions when you call a cost "real", that is the average cost per gallon of the recoveries from the crude and that is all that can be said about it.

MAJOR LIPSETT: The balance of the crude being lost?

MR. COTTLE: Yes, it is the total cost divided by the total gallons recovered.

MAJOR LIPSETT: That is the figure, the real figure is shown, the other figure would not be an accurate representation of his costs, would it, 5.723?

MR. COTTLE: Yes, it is just as accurate as the other. It is a different divisor. It is what you might say the real figures are, the cost total $156,958.83. Now that is a real figure. There is another real figure which is the total gallons which went into the still which

is 2,742,632 gallons. That is a real figure. There is another real figure which is 2,477,386 gallons which is what came out of the stills.

MAJOR LIPSETT: Yes.

MR. COTTLE: Now, those are three real figures. Now if you divide the total cost by one of them you merely get, it will be the result which is the average cost per gallon of throughput and the figure I gave you of 6.4 is the average cost per gallon of outcome if you want to put it that way, one is no more real than the other.

THE CHAIRMAN: A loss of nearly 300,000 gallons in processing.

MR. COTTLE: Yes.

MAJOR LIPSETT: Which is lost and for which he gets nothing.

MR. COTTLE: Yes.

MAJOR LIPSETT: And on that basis, assuming that loss, it puts the figure up to 6.4.

MR. COTTLE: That is right.

MAJOR LIPSETT: Just so I can understand that --

MR. COTTLE: I did not want to agree to the word "real" unless I knew exactly what you meant by "real" because there could be so much confusion about the accuracy of the cost.

MAJOR LIPSETT: On that basis his cost would appear to be 6.4.

MR. COTTLE: 6.4 is the average cost on all products recovered.

MAJOR LIPSETT: Yes.

WITNESS: Exhibit "C" shows the value of the crude used in manufacturing; in other words, 2,352,488 gallons costing $98,330.98.

Q MR. FRAWLEY: Now is that buying it at posted field prices or how do you buy your crude and where do you get your figure, I suppose you get the figure of $98,330.98 as the total of your invoices for crude oil?

A Yes.

Q Now do you buy at less than field price or always on field price?

A I do not know of any cases where we bought at less than field price.

Q And you have been using during this period the Royalite pipe line?

A Yes,

Q And this is your crude, is it from, speaking generally, from the Sunburst Oil Company?

A Yes.

Q In fact can you say that it is during the year 1938 all Sunburst crude?

A No, we purchased some from the Imperial Oil Company.

Q Well, what you bought from the Imperial Oil Company would be posted field price?

A Yes.

Q Plus this pipe line rate plus the extra 6 cents we have heard so much about?

A Yes.

Q And any crude you purchased from Sunburst would be the contract price which you pay Sunburst plus the transportation charges of the Royalite Company?

A Yes.

Q But you did not pay, or did you pay the Sunburst the going field price?

A We did pay Sunburst the going field price.

Q You had a contract, did you, for that?

A Yes.

Q Well I will just take it from you as you say it was contracted for under a contract that provided that you pay the posted field price.

A Yes.

(Go to Page 12,400)

T. Logie.

Q Well, why contract. Why a special contract?

A Well, there were certain conditions in the contract that appealed to us.

Q Conditions other than price conditions?

A Yes, Sir.

Q There was nothing peculiar about your Sunburst contract in the matter of the price that you paid?

A No, not as far as price per barrel is concerned.

Q Price per barrel?

A Yes.

Q That is what we are interested in. As far as crude that you took from them, you paid the same price as if you bought it all of the Imperial Oil?

A That is right.

Q Without going into it more than is required, is your present arbitration with the Sunburst Company, has it not had something to do with the matter of price payment for the crude?

A I do not know whether that is part of the arbitration or not. We have not been able to decide that yet.

Q We are interested here, you see, as we are with every refinery as to what they are paying for their crude and whether they are all paying the posted field price, and further than that, what their views are on the propriety of the posted field price. Do you feel competent to discuss these things?

A No, Sir. I will only say this statement shows the cost of crude purchased by the company at the field prices. Because should there be any adjustment or the dispute with the Sunburst Company which you seem to be drawing

attention to, that is not taken into these accounts at all.

Q What you are doing - that is perhaps very smart and proper accounting - you are charging yourself at the field price, and you take the total gallons and multiply by the field price?

A Plus the cost of transporting.

Q In the end you say there might be some adjustment?

A No, I said if there was.

Q Well, "if" means there is always a possibility. All this is, is the crude charged in at posted field price?

A Yes.

Q Whether your Bank account suffered the posted field price or not is another matter?

A It has nothing to do with the accounting procedure.

Q MR. COMMISSIONER LIPSETT: Who is the Sunburst contract with?

A I believe it is a contract between the Lion Oils Limited, the Lion Refining Company, and Leon L. Plotkins. I may be a little bit wrong there but that is what I think it is, and the Sunburst Oil Company.

Q MR. FRAWLEY: Mr. Logie, I do not want to press you and particularly when Mr. Plotkins, who has gone to the arbitration at the moment that we are talking about?

A Yes.

Q You are not able to say whether or not the arbitration really has to do with the price that you should ultimately pay to the Sunburst Company for the crude oil?

THE CHAIRMAN: If it is important to know, we can get the terms of the reference of the arbitration.

T. Logie.

MR. FRAWLEY: No, I won't press this witness.

THE CHAIRMAN: I do not think his evidence would be of any value. He is not in charge of the arbitration. If it is of any importance we could bring the arbitrator up, if you need, to say what is referred to him.

MR. FRAWLEY: The only reason I am wasting time is the Commission wants to know what these people paid for their crude and the witness says this is just a bookkeeping figure at the posted field price for safety's sake, as I understand it.

A No, I did not say that. I said the costs reflected in this statement were invoice prices from Imperial, Sunburst or any other companies we might have bought from at posted field price or better than the posted field price because we certainly did not buy any at less than the posted field price.

MR. FRAWLEY: Mr. Cottle has a suggestion.

THE CHAIRMAN: He did not buy anything at less.

MR. FRAWLEY: Mr. Cottle has a suggestion that you get the invoices. Would it be a great deal of trouble for you to make an analysis of the invoices and the purchase account. You have a purchase account in your book?

A Yes.

Q MR. COTTLE: Showing the quantity purchased from each of the persons you purchased from and the amount you paid for the various things?

A I can get that quite easily.

MR. COMMISSIONER LIPSETT: The contract, he says, was made

with the Sunburst Oil Company on the one hand and three people on the other, the Lion Oils Limited, the Lion Refinery and Mr. Plotkins.

MR. FRAWLEY: Yes.

MR. COMMISSIONER LIPSETT: There may be invoices from these three people to the Lion Refinery.

MR. FRAWLEY: The contract is in.

THE CHAIRMAN: You wanted something. You stated it to the witness. Do you understand what it is?

A Yes.

Q You will get it?

A A split-up-----

Q MR. COTTLE: Of the purchases?

A Yes.

Q There is one more thing in Exhibit "543", Exhibit "C", which is your financial statement, profit and loss account Refinery year 1938. I have been trying to reconcile it with Exhibit "A" or page A of Exhibit "542", the Exhibit you filed this morning. I wonder if you would be good enough to give me a reconciliation, at your leisure, of course, of your profit and loss contained in Henderson and Teare's report, and Exhibit "A" of Exhibit "542"?

A Yes, Sir.

THE CHAIRMAN: Not too much leisure. When would it be possible to have this?

A I happen to have a copy here with me for my own information,

MR. FRAWLEY: That is excellent. Will you produce it and file it then?

A Yes.

T. Logie.

THE CHAIRMAN: The other one you wanted, Mr. Cottle?

MR. FRAWLEY: An analysis of the purchases of crude. How long will it take to prepare that?

A Oh, sometime next week I could have that.

Q Early in the week?

A Yes.

Q Thank you very much.

THE CHAIRMAN: Let us say Wednesday morning?

A Yes.

Q You will make a note of that and we will too. We hope to get through with the public hearings and we want to have this data, all the data we are going to have before the end of the week so that we may work on it when the public hearings are not going on.

A Yes. Well, I have that information split up and I do not think it will be very hard to get.

Q All right, you will note that for Wednesday?

MR. FRAWLEY: Yes.

THE CHAIRMAN: You are filing that statement, are you?

MR. FRAWLEY: Yes, this is called "Lion Refining Company, Reconciliation of Differences Between Audited Statements and Cost Statement."

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "544".)

Q All right, will you go on with the Exhibit?

A Yes, Exhibit "C" shows the cost per gallon of crude used in manufacturing of 4.1807 cents per gallon. Now, you have the casing head used in manufacturing.

Q Is that on the same basis, invoices of casing head purchased?

T. Logie.

A Yes.

Q Would it be a great deal of trouble if you included in your analysis of crude your casinghead too?

A I do not see why it should be. I will get that.

Q Fine. Now, the rest of the page is manufacturing costs. Is there anything you want to call attention to there?

A No, that is split up, the manufacturing costs by products, showing $25,382.45.

Q I am going to ask you to be good enough to do a little more for us, if you would give us a breakdown of the item of wages, $9,978.88. It is just for the purpose of informing our experts in regard to the wage scales generally. Would you break it up into superintendent, foremen and skilled laborers and unskilled, and the number, of course. The number of each class of employee and so forth?

A In other words, you want the total reconciliation of the figure of $9,978.88?

Q A breakdown of it?

Q MR. COTTLE: A breakdown into whatever categories they may be put in, showing the number of men in each category. For instance, superintendents or management of the plant, if there is any, and general labor and everything.

MR. FRAWLEY: Everything is in there under the heading of wages. There is executive salaries and everything there?

A In the $9,000.00?

Q In the $9,000.00?

A There is no executive wages in there at all. That is the superintendent, the assistant superintendent and the

still man and so on.

Q Well, if you can get that for us?

A Yes.

Q Now, Schedule No. 1?

A Yes.

Q That is your administrative and handling costs for the year 1938?

A Yes.

Q Would you be good enough to give us a similar breakdown of the item of $1,034.75, being salaries and wages?

A Yes.

Q And that is all in that item.

Q MR. COMMISSIONER LIPSETT: Is this manufacturing cost in Exhibit "C", does not that include overhead?

A No, Sir. This is just the cost applicable to the manufacturing of the products. There is no administrative charges against that at all. The administrative and handling charges are set out in Schedule No. 1, which further reduces our profit on the manufactured products.

Q MR. COTTLE: The two columns on the bottom of what you call Schedule No. 1 is the apportionment of the total administrative expenses in proportion to the total gallons of each product sold?

A Yes, on a gallonage basis, not a value basis.

Q MR. FRAWLEY: All right, Schedule 2?

A Schedule No. 2 shows an analysis of the sales by products, the number of gallons being 2,582,355, and the amount of $237,600.78.

Q Just one question there. Ethyl is your Premium Ethyl?

A Yes.

Q And Gold is your regular gasoline, leaded?

A Just like 3 Star.

Q Both of which products you buy from the Texas Company?

A Yes.

Q The next one is Lion White?

A Yes.

Q And the fourth one is Flight. Are not these two gasolines, Lion White and Flight, those are 3rd structure gasolines, are they?

A Yes, I think, I am not positive that the Flight is a blended product of Lion White and either tractor kerosene or something. I am not just sure on that.

Q But is it manufactured. Everything but the first two gasolines are manufactured by your own company?

A Yes.

Q Of course, with the exception of the lamp kerosene that Mr. Plotkins told us about. Now, the next?

A Is an analysis of the purchases by products giving the number of gallons purchased of Ethyl, Gold and straight run, which is Lion White, tractor gasoline, lamp kerosene, casinghead and crude.

Q All right. Those prices you pay for the Texas, have you got a contract covering those. Because you are a jobber with respect to those two items. Do you buy those under a written contract?

A I believe there is a contract but I would not go on record on that though. Mr. Plotkins would give you that information better than I would.

Q I am sorry, Mr. Plotkins has stepped out. Do you know whether Mr. Plotkins intends to make any submission at all on his marketing?

A Yes, he is, I think.

Q There were some briefs here on marketing this morning?

A Yes.

Q Well, we will speak to him at the recess. The last statement, Schedule No. 3, is what?

A An analysis of the fixed assets and depreciation reserve.

Q Well, we have no questions about that. That is all we have to ask you. Mr. Logie, you will try to be back on Wednesday with the rest of the information we requested?

A Yes.

Q MR. NOLAN: May I ask Mr. Logie a question. You have been giving evidence in this arbitration?

A Yes, Sir.

Q You know what it is about?

A I know the accounting about it.

Q It is a dispute between your company and this producing company as to what should be paid to them for their crude oil, is it not?

A Well, I do not know whether that is properly put.

Q Well, you put it.

A If it is a dispute I think it is more proper to say it is what basis we have for our claim from that company for losses which we have sustained.

Q You are making certain deductions from the amount of money which is alleged to be owing to the producer?

A Yes.

Q You prepared the statement yourself, didn't you?

A Well, no, the subject matter of the arbitration was before I was employed by this company.

Q I mean in preparation for it you have done some work ?

A Yes.

Q You have not paid the Sunburst Company the posted field price, have you?

A Well, we have paid them the posted field price less what our claim is.

Q MR. FRAWLEY: Then what are these figures?

A These figures have no relation whatever to the statement I submitted.

Q MR. COTTLE: What figures did you put into your purchase account. It matters very little whether you paid them or not but what figures did you set up in your books?

A If I could explain the entry it would be better. We debit our purchase account with the full amount that is due to the Sunburst for the number of barrels that we purchased at pipe line prices.

Q The full amount due the Sunburst at pipe line prices?

A If we buy 5,000 at $1.20 we credit them with $6,000.00. That is what is charged to our purchases.

Q The fact the Sunburst has not been paid would not affect these statements in any way?

A None whatever.

THE CHAIRMAN: Is that all with this witness?

MR. FRAWLEY: That is all, thank you.

Now, we can get started with the Becker Company.

.....

JAMES LEROY SADLEIR, having been duly sworn, testified as follows:

Q MR. FRAWLEY: Mr. Sadleir, you are connected with the Becker Companies, are you not?

A Rather indirectly.

Q Are you connected in any way with Becker Refineries Limited?

A No.

Q Or with Becker Oil Company Limited?

A I more or less supervise the office, and that is about the only relation I have there.

Q Are you here this morning to put before the Commission certain financial statements of this company?

A Yes.

Q Of which company?

A Becker Refineries.

Q Becker Refineries Limited. You feel competent to place before the Commission their financial statement, do you?

A All I have done, Mr. Frawley, is to make copies of a statement that was sent in by our accountant some time ago.

Q Sent in to me?

A Yes.

Q By your accountant. I am a little confused as to the inter relationship of these companies.

THE CHAIRMAN: Find out who Mr. James L. Sadleir is and why is he filing this statement. Who is he in relation to these companies?

Q MR. FRAWLEY: Who are you in relation to all these Becker companies?

THE CHAIRMAN: Or any of them?

A My duties are largely on behalf of Mr. Becker personally,

J. L. Sadleir.

and, as I say, I do supervise the office of the Becker Oil Company. I am here substituting this morning for Mr. Gibb, the accountant who prepared this statement.

Q Are you as familiar with it as Mr. Gibb?

A No, I really know nothing about it.

Q Where is Mr. Gibb?

A He is on holiday and won't return until Tuesday.

MR. FRAWLEY: It was a matter of getting the material before the Commission. Mr. Don Becker is here himself. It is a matter of putting something before the Commission that we can take as the statement of this company that is all?

A Yes.

Q If you are not prepared to do it perhaps Mr. Becker is prepared to say that this is a record of the financial affairs of the Becker Refineries?

A I am simply submitting these as copies of the statement as sent in to the Commission.

Q The difficulty, Mr. Sadleir, is, you will readily understand that was sent to me is of no great importance----it is important to inform me but of no importance for putting it into this record. Somebody must say it is a true account of something taken from the books of the company?

A Yes.

Q It may be a technical matter but it is very important.

A I am not competent to answer that because I have nothing to do with it.

Q Mr. Gibb could do it very readily?

A Yes.

Q When will he be back?

A About Tuesday, I believe.

MR. BECKER: It is quite possible Mr. Sadleir would say that is a certified copy of Mr. Gibb's work.

MR. FRAWLEY: Yes, Mr. Sadleir might by reading it say that Mr. Gibb has certified to it.

MR. BECKER: Yes.

MR. FRAWLEY: That does not get us close enough. You cannot, yourself, Mr. Becker, go any further than Mr. Sadleir, I suppose?

MR. BECKER: Not very well.

MR. FRAWLEY: I am anxious to facilitate getting it before the Commission. But I do not relish any delay, of course, naturally. We may have to let this matter stand till Tuesday.

THE CHAIRMAN: Is there any delay, really. You could put this in for identification now. You do not want a statement in that is not verified by somebody. Otherwise, it is just no good. We can put it in for your purposes to send the copies away, on the understanding that the witness Gibb, is it?

A Yes, Gibb.

Q Will appear here on Tuesday to verify it.

Q MR. FRAWLEY: What is this then? You say what it is subject to Mr. Gibb coming and verifying it actually.

A It is a copy of the statement of the income and disbursements of the Becker Refineries Limited for the year ended January 31, 1939. Also a copy of the assets and liabilities of the same company for the same period. I have made four copies of it at Mr. Cottle's suggestion.

THE CHAIRMAN: We will call this Exhibit "X" for identification.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "X" FOR IDENTIFICATION.)

Q THE CHAIRMAN: I suppose that is as far as you can go with this witness then?

MR. FRAWLEY: Yes, Mr. Chairman.

Q MR. FRAWLEY: Now then, the Becker Oil Company, you could do the same thing for that, to the same limited extent?

A Mr. Frawley, it did not occur to me when I was talking to Mr. Cottle yesterday that the Becker Oil Company might come into the picture as well. I have no copies of that.

Q How about this. This is the balance sheet of the Becker Oil Company Limited, dated February 28th, 1939, together with statement of operations for the year ended February 28, 1939, and a schedule of the fixed assets and depreciation reserves as of February 28th, 1939, all prepared by the same Mr. Gibb?

A Yes.

Q And which he can immediately certify to?

A Yes.

Q All right, I would offer this as Exhibit "Y" for identificatio

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "Y" FOR IDENTIFICATION.)

A Would you want further copies of this?

Q Yes, please.

A That is what I had in mind.

Q Yes, do you want to have this back to make copies?

A No, I have one copy at the office.

Q You know what it is?

A Yes.

Q I think that is all, Mr. Sadleir.

(At this stage there was a short recess.)

DONALD FAY BECKER, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Becker, you are connected with Becker Refineries, Limited and Becker Oil Company, Limited?

A Yes.

Q In what capacity are you employed with the Becker Refineries, Limited?

A Secretary.

Q You are secretary of the company?

A Yes.

Q And a director?

A Yes.

Q You have something to do with the actual operations of the company's business?

A Yes.

THE CHAIRMAN: Just a minute, Becker Refineries, Limited.

MR. FRAWLEY: Yes, Becker Refineries, Limited.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: How long have you been engaged in the manufacturing,-I will get the relationship of the Becker Oil Company, Limited and then come back to the Refinery, what is your capacity in the Becker Oil Company, Limited?

A Exactly the same.

Q And there is still another company, is there not, the Richfield?

A The Richfield Distributors, Limited.

Q The Richfield Distributors, Limited, and you are secretary of that company also?

A Yes.

Q THE CHAIRMAN: And a director?

A Yes.

Q THE CHAIRMAN: Now let me get that name too, please.

MR. FRAWLEY: The Richfield Distributors Limited.

Q MR. FRAWLEY: Now are those the only three companies that you are connected with the operation in the petroleum industry in Alberta?

A Yes.

Q You have no producing company?

A No.

Q You purchase your requirements?

A Yes.

Q Now what is the relationship, first to the companies themselves, what is the relationship between Becker Refineries, Limited, Becker Oil Company, Limited, and Richfield Distributors, Limited?

A Richfield Distributors, Limited, was the parent company and is not operating now, although the company itself is in existence.

Q Richfield Distributors, Limited, is not now operating at all?

A No.

Q In the petroleum industry?

A No. The Becker Refineries, Limited, is the refining company and selling to the Becker Oil Company, Limited.

C3
3

Q Selling to Becker Oil Company, Limited and Becker Oil Company, Limited sells to the public?

A Yes. Becker Refineries also sells to the public at the plant.

Q Now dealing for a moment with the Becker Refineries, Limited, how long has it been in the refining business?

A Since the 1st of Feoruary 1938.

Q So that the statement which we have put in as Exhibit X for identification is what you might call the first statement of the Becker Refineries, Limited?

A Yes.

Q Because it is for the year ended January 31st, 1939 and so far as income and disbursements are concerned and the balance sheet also is at January 31st, 1939?

A Yes.

Q Now it operates a refinery where?

A At Royalty, Alberta.

Q Would you just very briefly describe the refining operations please?

A We have one small unit known as a skimming plant and a second small unit using the bottoms from the skimming plant and known as a cracking plant, and the third is a treating unit.

Q Now the skimming plant is the same as, I mean it is a well-known operation?

A Yes.

Q It is a part of every refinery?

A Yes.

Q Now in addition to that you have another unit which you

call a cracking unit?

A Yes.

Q Would you mind describing that a little for the record for the information of other people maybe interested in reading the record?

A The cracking unit is used to break up what would otherwise be waste oil from the skimming plant unit, into lighter products such as gasoline and deisel oil and making saleable products out of what would otherwise be an unsaleable product.

Q You refer to it as a cracking unit and I want to be quite certain, not for the moment doubting your word, but I want to be quite certain that there is agreement about that, can you, I might understand but would you for the record describe that operation and the equipment which is involved, describe the equipment and the operation?

A Well the operation is, the cracking unit is a large furnace for heating purposes and ours is really as I told you a very simple unit so that there is just the one large pump, to pump products through at high pressure and into the furnace where it is heated to a high temperature,

Q How high?

A Between 900 and 1,000 degrees Fahrenheit and at that output, at the outlet from the furnace the pressure is suddenly reduced and that reaction takes place.

Q Just speak out louder please?

Q Causing high molecular fractions, in other words the heavy waste oil to disassociate and form fractions of lower

molecular weight.

Q Now let me interrupt you there. What training have you had, Mr. Becker, academically?

A I have a chemical engineering degree from the University of Alberta and I also have a Bachelor of Arts.

Q MR. COTTLE: Mr. Becker, what pressure does your cracking coil at?

A At around 400 pounds, but that varies according to the stock used.

Q The unit will operate at 400 pounds?

A Yes, as a matter of fact the unit will operate at 600.

Q With temperatures between 900 and 1,000 degrees Fahrenheit?

A Yes.

Q MR. FRAWLEY: Did you purchase the unit as one and install it or did you manufacture it yourself?

A No, we purchased all the necessary heavy equipment but the design and layout is all done by my brother.

Q By your brother?

A Yes.

Q Is your brother a chemical engineer also?

A Yes.

Q Well then you have in addition to this, you have a treating plant which is part of every refinery?

A Yes.

Q Now how long, and this unit which you now describe, the skimming plant, cracking unit and treating unit has been in operation since you started?

A No.

Q No?

A The cracking unit was started some time late last November.

Q Since late last November you have operated what you describe as a cracking unit?

A Yes.

Q Now what products do you make in your refinery as a whole?

A Make a No. 1 grade gasoline, a second grade gasoline, a very small amount of kerosene, deisel fuel and fuel oil.

Q Now so there will be no misunderstanding on terms, Mr. Becker, you spoke of a No. 1, perhaps in this Inquiry we have been referring to Ethyl gasoline, the premium fuel as No. 1 and then a "Q" or roughly a 71-72 octane as regular and the ordinary white gasoline as third grade, now with those terms in mind would you state what products you make?

A The regular and the third grade and the other products.

Q Yes, now the extent of your operations, the volume and so on of the throughput all appears in Exhibit X for identification?

A Yes.

Q Your throughput, I would like to put that on the record, this may not be, will you supplement this statement Exhibit X for identificationby some information with respect to the amount of throughput and that sort of thing, during the same period?

A I do not know our figures for the throughput direct but

C3
7

we sold through the two companies about 2¼ million last year.

Q Gallons?

A Yes, of products.

Q Yes, but you cannot take us to the end of, the other end of the refinery and tell us what the gallonage charged was?

A I can get it for you, I have not got it here.

Q I mean, quite, you will let us have that, can you?

A Yes.

Q And then the yields?

A No, that is something that has been very indefinite due to the fact that just having built the plant and built it ourselves we have had to make so many changes and we have had to learn how to run it in the first place, that our yields have been of a very great variety.

Q Would it be possible however, unsatisfactory you may regard it, would it be possible for you to prepare a memorandum for us which we can send to our refinery expert Dr. Brown, just such as it is, of the various yields from the various charged stocks at various times?

A Well----

Q And particularly of the cracking coil?

A I do not know, I do not think so and I will tell you why, the cracking coil has only been in operation since November and that does not include it in our year's report; other than that it has been operating on different types of crude, on different types of cracked stocks as

C3
8

well as the bottoms from the distillation units which had been left over from the year before and we first had to learn how to run it so that it ran very inefficiently to start with and gradually its efficiency crept up and we do not think we have been, we do not think we have finished our work on it yet.

Q MR. COTTLE: Couldn't you give us an approximate idea of the yield of products from various stocks from your cracking coil, or your cracking unit?

A It would hardly be of any use. The first result of, the first two or three months would show a great inefficiency and not a very good yield.

Q Couldn't you give it for various months so far as that is concerned, could you not give us your yields from the various base stocks, you have a general idea?

A We have a general idea and that is all. In the operation of a cracking plant so much depends on the individual limitations you put upon it yourself, that is the pressure and the temperature you run at and it is not yet, it all depends upon the type of equipment, the size, and so very many factors, until we have it running satisfactorily ourselves, we really do not know how much it costs us to put anything through or how much yield we get of any one product.

(Go to number 12,422)

D. F. Becker

Q How much did that cracking coil cost, do you know?

A About 35 to 40 thousand dollars.

Q Is that for the cracking unit itself or your whole distillation plant?

A No, the cracking unit itself.

THE CHAIRMAN: In view of what the Witness says, supposing you did get the information, it would not add very much to the sum total of your knowledge. He says they are in the experimental stage really. They are gradually working up to a state of efficiency that they may expect some day to be static, but right now it is in the course of experimentation as I understand you, Mr. Becker?

A Exactly.

MR. COTTLE: If any reliable data could be had at all, it would be of great interest to Doctor Brown. At the moment, we have only two cracking coils in operation in the province, the Imperial and the British American. And here is an example of a small cracking coil.

THE CHAIRMAN: What the Witness says is the results to date of the various experiments have not been such as to justify him making a statement that might prove to be accurate with regard to the future. I suppose that he has no objection in the world to Doctor Brown making such examination as he likes?

MR. FRAWLEY: Doctor Brown has really undertaken to look at these small plants and come in with an estimate, Mr. Plotkins, Mr. Mayland, and I think we did

discuss the Becker operation with Doctor Brown. When he comes back he can go to Mr. Becker's plant and after discussing the matter with Mr. Becker he can make his own views.

THE CHAIRMAN: After taking into account what Mr. Becker is pointing out to us, there is no objection to that, is there, Mr.Becker?

A Not at all.

Q It would be more satisfactory than trying to put forward a submission right now?

MR. FRAWLEY: For no other purpose in the world is any question asked except to assist Doctor Brown, even if it were just hodge-podge, what the results have been to date, good, bad and indifferent. It might make it easy for Doctor Brown to look at the particular plant and come to some estimate.

MR. COTTLE: That is what I had in mind.

A We have been changing our plant all the time. All the workmen, they are doing a certain amount of work in the changing and as far as costs go, we have not any idea what they are. Similarly as to yields. Each time you make a change you get a different yield. If we run one week and make a change tomorrow of our pressure, it changes the throughput of every product. But we can get possibly, after a lot of work, the figures for every week of running that we have run, but it is hardly reasonable to wade through all that and come to the conclusion that the plant was operating inefficiently. We hope, and intend to have it operating better but it is absolutely no

D. F. Becker

representation of what it will do.

MR. FRAWLEY: There should not be any question of you giving us your operation as it is being done now?

A No.

THE CHAIRMAN: What is the advantage of going behind what they are doing right now?

MR. FRAWLEY: No, and even what he is doing now may not be what he is doing in a week's time.

MR. COTTLE: Would it not just indicate the most you could expect from the plant up to date so as to give an engineer an idea of what can be expected in the matter of yield from a plant of this kind, a cracking unit of this kind?

A No, for one simple reason that we like the Lion Refinery have a large quantity of bottoms left over and we spent all of that time up to now getting rid of that extra stock. We are running on one condition only, and that was to get rid of that stock. We were not running the operation of a general refining plant, operating a certain amount of crude and skimming that and taking the rest and cracking it and getting a certain yield out of a certain gallon of crude.

Q Of course, we could tell with some degree of certainty what you can get from your skimming operation because that is more or less fixed by the nature of the crude?

A Yes.

Q And that operation gives you a yield of bottoms and you are now experimenting to get the greatest recovery of the more

valuable products from your bottoms through your cracking unit?

A Yes.

MR. FRAWLEY: It is just that, that this refinery has just realized the situation and has gone into a cracking operation, that Doctor Brown would find interesting. Because he has talked about, well the way he described it is that a person only with a skimming plant is not in the refining business at all. That is the way Doctor Brown conversationally described it. These people have recognized that and they have established a small cracking unit in an endeavor to get into the refining business.

A We will be pleased to supply any figures we can.

THE CHAIRMAN: Anything that is reasonable. We do not want him to do a lot of work that is in the end of no assistance.

MR. FRAWLEY: I would suggest that Mr. Becker and Mr. Cottle would discuss what may usefully be sent to Doctor Brown and that it be sent and verified by you later.

THE CHAIRMAN: There is no use of him doing months of work unless there is some excellent reason. I think that is a good suggestion that you and Mr. Cottle talk it over as to that which he thinks he requires right now and put you to a minimum amount of labor about it. You are prepared to do that?

A Yes.

THE CHAIRMAN: You hear that, Mr. Cottle?

The Witness says whatever you say he must have in order to give Doctor Brown the present picture he will get for you. He does not want to be put to needless or unnecessary work in view of the fact that Doctor Brown is going into the plant anyway.

MR. COTTLE: Yes, I certainly did not have any idea in mind of putting Mr. Becker to any great amount of work.

THE CHAIRMAN: No. Well then, Mr. Becker is quite willing to do what you want.

A Yes.

Q MR. FRAWLEY: Thank you. Now that is Becker Refinery. The Becker Oil Company is a company that buys the product at the refinery door from the Becker Refinery and distributes it?

A Yes.

Q You have given us a balance sheet and profit and loss statement and a schedule of assets and depreciation reserve on the 28th of February, 1939 for the Becker Oil Company?

A Yes.

Q I have here some information which I received from your company in the form of a letter, and I am wondering for the sake of getting it in the most simple manner on the record, if you could prepare, and would it be a great deal of trouble to prepare a short memorandum showing where you operate, where your bulk stations are and your investment in bulk stations; where you operate retail and what your investment is. And what your price structure is and something about your lubricating oil business, as an

(Go to Page 12,437)

adjunct of your gasoline business. I presume you have to buy and sell lubricating oils?

A Yes.

Q And as I see pretty well the information you have given me, but the peculiar way it is set up here in the letter you wrote me on the 16th of December last in answer to the questions is hardly readable if you know what I mean. It would be very helpful, Mr. Becker, if you would prepare a running story as it were of all that kind of basic information so that the Commission will have it?

A I would be pleased to.

Q Now then I perhaps might ask you some general questions, if you are like the rest of the people in the refining business. Do you have much business with farmers?

A Yes, quite a bit.

THE CHAIRMAN: When are you going to have this?

MR. FRAWLEY: This material I am now asking you for could probably be prepared for some day next week?

A Quite easily.

Q Say Tuesday or Wednesday?

A Wednesday.

Q Now you may be able to answer some general questions. You operate through your bulk stations on a commission basis?

A No, we operate them all ourselves.

Q They are not very widespread, are they?

A No.

D. F. Becker

Q Perhaps you could tell us where they are?

A We have one bulk station right at the refinery, for Becker Refineries. The Becker Oil Company has two bulk stations in Calgary.

Q Yes?

A With retail outlets.

Q Those are combination units, then?

A Yes, Sir. And one only retail outlet in Calgary. One combination unit at High River and one on Camrose.

Q And that is the list?

A Yes.

Q With regard to your bulk business, your wholesale business, you operate them by salaried employees?

A Yes, Sir.

Q Do you have your own price structure or do you follow the Imperial Oil price structure?

A We have our own price structure but it naturally follows the Imperial Oil price structure very closely.

Q In the memorandum you are preparing if you will show your prices today..... No, but would you please show us the price structure as of the dates of your financial statement?

A Yes, Sir.

Q That would not be very difficult, I suppose. Do you supply free barrels to farmers that buy your products?

A No, we haven't any barrels.

Q So the farmer coming to one of your stations, Camrose or High River or Calgary and the plant, what does he do about the package?

A He has his own barrels except at Camrose. We have a few there.

D. F. Becker

Q Apart from Camrose, you say the farmer must bring his own package?

A Yes, Sir.

THE CHAIRMAN: How many outlets did you say you had?

Q MR. FRAWLEY: List them again, please?

A Three outlets in the City of Calgary, one at Camrose, one at High River.

MR. COMMISSIONER LIPSETT: And one at the refinery?

A Yes.

Q MR. FRAWLEY: At all of those six outlets your goods are available for distribution in wholesale quantities, in barrel quantities?

A Yes, all of these five outlets. One station in Calgary is strictly retail.

Q Outside of that one you have five wholesale stations?

A Yes.

Q And you say that apart from Camrose the farmer must bring his own barrel?

A Yes, Sir.

Q Do you find that the farmer - perhaps you do not know - but do you know whether in all instances the farmer brings a barrel which he owns or a barrel which has been lent to him by one of the other companies?

A We have no way of knowing.

Q And you do not concern yourself with that?

A No.

Q It is his, as far as he is concerned?

A It is his for use.

D. F. Becker

Q It is his because he is bringing it to you?

A Surely.

Q Whether it is his is between himself and some other company is another matter?

A Yes.

Q At Camrose you have some barrels of your own?

A Yes?

Q Which you supply free?

A Yes.

Q Do you keep a very close check on them or do you run any risk of loss on the value of those barrels?

A We run a small risk of loss but only small. It is only a small district that is covered so the risk is probably on the small side.

Q Yes. Now how about delivery. Do you make delivery? Have you any trucking facilities to any of these bulk points?

A The Camrose station has one small truck.

Q And with it you give free deliveries to the farmers?

A Within an area of 10 to 15 miles.

Q Within an area of 10 to 15 miles, you make free delivery?

A Yes.

Q It is done at your own expense. It is all a company operation?

A Yes.

Q You own the truck?

A Yes.

Q And look after its up-keep and all that?

A Yes.

Q THE CHAIRMAN: The agent.....?

D. F. Becker

MR. FRAWLEY: He is not an agent, he is an employee?

A Yes.

Q THE CHAIRMAN: On salary?

A Yes, Sir.

Q MR. FRAWLEY: Have you got a very big gallonage at Camrose?

A No, it is comparatively small.

Q Have you been in operation very long? I would like to compare it with the other agency operations?

A About three years.

MR. SADLEIR: I would say about four.

A Between three and four years.

Q MR. FRAWLEY: It might be very useful if you would prepare a statement of Camrose to show what are the costs there and the gallonage, so that Mr. Cottle might have some idea what that station is doing?

A Yes. We have not any separate accounting of that but we could make it.

Q Without being too arbitrary, you think you could arrive closely at the cost of operating that station?

A Yes.

Q MR. Cottle only means the direct expenses of the station. That would be a comparatively simple matter to let us have that?

A Surely.

Q 1938 will be all right.

A All right, Sir. Shall we make it for the period during the operation of the Becker Oil Company, that is 10 months.

D. F. Becker

Q What is it now?

A Well, it is the Becker Oil Company station now, but the Becker Oil Company was started on the 1st of March.

Q 1938?

A Yes.

Q How was the station operated the three or four years before that?

A By Richfield Distributors Limited.

Q MR. COTTLE: You have the records of the Richfield Distributors expense?

A Yes.

Q I think it would be better if you could make a statement for the full period of 12 months whether the station was operating by Becker Oil or Richfield?

A Yes.

Q MR. FRAWLEY: Do you know what it costs to haul out of that station? If so, you might let us know. Now, something else. How do you supply that station at Camrose?

A By truck, our own truck.

Q From Calgary?

A Yes.

Q You then would know..... By the way, what investment have you got in trucks altogether? How many trucks?

A We just have three?

Q Three trucks.

A Yes.

Q Including the one at Camrose?

A Yes.

Q But for highway transportation from the refinery to Camrose

D. F. Becker

and to High River and to Calgary, how many trucks have you got?

A Just those two.

Q They are tank trucks?

A Yes.

Q Have you made any calculation as to what it costs you per gallon per mile?

A Yes, the figure that it costs us a little over a half a cent a mile per gallon.

Q Long and short haul?

A That is the full year's average.

Q That is averaging the long haul calling Camrose haul a long haul and Calgary a short haul?

A Yes.

Q Don't you find a distinction between the cost of the Camrose haul and the Calgary haul?

A No, not very much.

Q You find it is about half a cent per gallon? I am thinking you see of the per gallon of tank truck haulage?

A No, I have that wrong. To haul from the Valley, from our refinery up to Camrose we consider it costs us 3½¢ a gallon.

Q You go by the shortest way, of course?

A Yes.

Q Mr. Plotkins was talking to us about that. Obviously you do not go to Edmonton and then back?

A No.

Q And the railway has not got to do that. The rail would only go to Wetaskiwin and then to Camrose. But you would not even have to go that far, would you?

D. F. Becker

A It depends on the weather.

Q Yes, in good weather you might get there by a shorter mileage than going to Wetaskiwin and then across?

A Yes.

Q In any event, you say the Camrose haul by the longest way is $3\frac{1}{5}$¢ per gallon?

A Yes.

Q And the Calgary haul?

A About between $\frac{1}{2}$ and $\frac{3}{4}$ of a cent. Closer to $\frac{3}{4}$ of a cent generally.

Q MR. COMMISSIONER LIPSETT: Do you know what the rail freight is per gallon to Camrose?

A No, Sir.

Q MR. FRAWLEY: I would like to put on the record the mileage to Camrose from your refinery?

A 235 miles.

Q And to Calgary?

A 50.

Q You have one service station and three or four combination stations?

A Yes.

Q Are they operated on a salary basis?

A Yes, Sir.

Q So you are not in the leasing business at all?

A No.

Q How about dealer's margine, Mr. Becker? Have you any views on that? Would you yourself being a retailer, do you in the City of Calgary, for instance, do you follow the price structure of the Imperial Oil in the City of Calgary?

D. F. Becker

A No. Most of our products are slightly higher.

Q You buy the Ethyl gasoline, I take it, you buy those products that you do not make?

A Yes.

Q You buy some "Q". Do you buy some leaded gasoline?

A Some, but not very much.

Q But you do buy a certain amount of Ethyl to round out your products?

A Yes.

Q You buy that from whom?

A The Bell Refining.

Q From the Bell Refining Company? So that you get the Bell Ethyl and not B. A. Ethyl?

A I think possibly Bell Ethyl, yes.

Q But by name?

A Yes.

Q It is Bell Ethyl?

A Yes.

Q Do you buy on a margin under the tank wagon or from the refinery?

A No, we buy that on margin under the tank wagon.

Q What has been your margin?

A The price to us has been 15½¢ per gallon.

Q It works out at 15½¢?

A Yes.

Q That is a margin under the tank wagon?

A Yes.

Q Of how much?

A 3¢.

Q Or about 3½¢?

D. F. Becker

A Yes.

Q It is only sold in Calgary?

A Just in Calgary, yes.

Q You do not sell it at your combination unit in High River?

A No.

Q Nor your combination unit at Camrose?

A No.

Q Only at Calgary? It would be 19¢, and if it is 15½¢ it is 3½¢ under the posted tank wagon?

A Yes.

Q MR. COTTLE: What is your hauling cost to High River, Mr. Becker?

A It depends very much upon road conditions. If we have to go by way of Okotoks, the cost is the same as to Calgary, whereas if we are able to use the country roads, the mileage is cut to two-thirds.

Q MR. FRAWLEY: The mileage to High River is what by way of Okotoks?

A About 46 miles.

Q And if you can go directly down from the refinery on the country roads, it is cut to.....?

A To about 25 miles.

Q MR. COTTLE: What does that make your haulage cost, just half what it is to Calgary when it is 25 miles?

A I do not know. We have not figured that out.

Q MR. FRAWLEY: Going to regular gasoline, the service station price in Calgary is what?

A 27¢. 20¢ and 7¢ tax.

D. F. Becker

Q That is the pretty well established pump price in Calgary for regular gasoline?

A Yes, Sir.

Q Do you know of any considerable departure from that 20¢ price in Calgary for regular gasoline?

A No, I do not.

Q You never ran across any breaking of that price?

A Not on that particular grade of gasoline.

Q Of course I am speaking now of what the other marketers do, just from your knowledge of what other service stations are doing. You say they are consistently selling regular gasoline, which is in this province, with the single exception of yourself, it is all "Q" regular gasoline?

A Yes.

Q You say the pump price of 20¢ is being pretty consistently maintained in Calgary?

A Generally, yes.

Q And for what "Q" brand you buy and sell you maintain a price of 20¢ do you?

A Through the retail outlet.

Q Yes, your retail outlet. I was speaking now of you as a retailer?

A Yes.

Q You maintain the price of 20¢?

A Yes.

Q For this other gasoline you call the regular gasoline, but not a leaded gasoline, you maintain a 20¢ price on that too, do you?

A Yes, Sir.

(Go to Page 12,448)

D. F. Becker

Q About how much ----

MAJOR LIPSETT: Is this number one crude not the regular "Q" gasoline?

MR. FRAWLEY: No, it is not "Q", you have no Ethyl contract?

A No, sir.

Q Mr. Becker's own regular grade is a non-leaded gasoline, I was going to ask you something about that, we were asking the Ethyl man about it the other day, what analysis have you had on that and by whom were they done?

A I do not know by whom they were done, they were done through the field plant, that is the analyses were sent away from there.

Q From there?

A Yes.

Q Were they sent to some laboratory in the United States?

A No, I know one of them was sent to the University of Saskatchewan.

Q And were there others sent other places?

A Yes.

Q I wonder if when you come back on Wednesday you would be good enough to bring such analyses as has been made and by whom, of that regular gasoline of yours, non-leaded, so that we might put that in evidence?

A I will.

Q You are making about how much of it now, how much of it is going into the market?

A I do not know just offhand how we are doing.

Q Could you bring some information with respect to that when

you come back?

A Yes.

Q Now you are selling some of it outside of your own service stations, you are selling, well let me ask you that, have you any sale for any of your products outside of the six stations which you have just mentioned?

A Do you mean other than the farmers?

Q Well yes, to anybody, is all your product, does it all get to the consumers through those six points?

A No.

Q Now where, how is any of it sold other than through those six points?

A A small amount is sold to what Mr. Plotkins terms "truckers".

Q And what do they do with that, the truckers, where do they take it?

A They retail it in their districts.

Q It is taken away in tank trucks by those people?

A No, in barrels.

Q There is not a very large portion of it sold that way?

A No.

Q How much in 1938, can you bring that information with you on Wednesday?

A I do not think I could without a great deal of work.

Q Well what perhaps is important, you could give us your scale of prices at which you sell and have sold to the truckers?

A Yes.

Q Both in 1938 and up to date?

A Yes.

Q On the various products?

A Yes.

Q Sold on the basis, on a refinery basis I suppose?

A Well the bulk of it is sold here in Calgary.

Q Sold on a Calgary basis?

A Yes.

Q It would be refinery plus some carriage but all the freight beyond Calgary is taken care of by the purchaser?

A Yes.

Q MAJOR LIPSETT: Is this gasoline which you sell in Calgary then the 20 cents plus tax, is that your own manufacture?

A Yes.

Q You do not sell any ordinary "Q" products?

A We have bought at times small quantities when our supply was very low.

Q MR. FRAWLEY: You have a contract to sell Ethyl gasoline and "Q" gasoline from the Ethyl Corporation?

A No.

Q Well you must have a contract or you would not be able to sell the Bell Ethyl without a distributor's contract, have you not one of those?

A No.

Q I mean, I put it to you that the Bell Refining Company could not sell you Ethyl gasoline for resale unless you were the holder of what the Ethyl Company calls a distributor's license?

D. F. Becker

A Well we are not distributors for Ethyl. We merely sell at retail.

Q Oh, I see, it is purely retail?

A Yes.

Q It is purely a retail proposition?

A Yes.

Q The Bell Company sells to you as a retailer?

A Yes.

Q I mean you see the price on Ethyl gasoline, the tank wagon price on Ethyl gasoline in the City of Calgary is 19 cents?

A Yes.

Q That means that the British American man across the street here pays 19 less 1 of course by virtue of his A. B. A. standing?

A Yes.

Q So he pays 18 cents?

A Yes.

Q And he sells it at 4½ cents on top of that perhaps. Now you are just a retailer with respect to the Ethyl, are you not?

A Yes, but we are also bulk purchasers, that is we buy it in bulk and it is sold not in retail outlets.

Q Well but where does it go, does it go direct from the Bell Refining Company to your service stations?

A Yes.

Q In dumps of 200 or 250 gallons?

A Well some small dumps, just whatever is convenient.

Q You do not buy it and take it away and store it and then bring it from your storage to your service stations?

A No, they will not allow us to do that.

Q That is purely a retail operation?

A Yes.

Q Ordinarily it is the same operation as this B. A. retailer across the street has?

A Yes.

Q Is it delivered to you by tank wagon the same as to the other service stations?

A Yes.

Q But you pay 19 less 3½?

A Yes.

Q And he pays 19 less 1, do you buy any other goods from the Bell Refining Company?

A Oh, yes.

Q And perhaps possibly on account of your other relations with the Company it warrants you getting the better price?

A Yes.

Q What do you buy from the Bell Refining Company other than Ethyl gasoline?

A Diesel fuel, kerosene, lamp kerosene.

Q It looks as though they are actually regarding you as a jobber with that Ethyl along with your other products that you buy from them?

A Yes.

Q Well I am not worrying about the Ethyl Corporation and their troubles. Now you maintain a dealer margin in Calgary on Ethyl gasoline of how many cents?

A We have not been selling Ethyl to dealers as yet.

Q No, but to the consumer, you have a service station spread?

D. F. Becker

A Yes, well we sell at the standard price of 29½ cents per gallon.

Q That is 22½ cents?

A Yes.

Q That is what you say is the standard, that is the retail price in Calgary, 22½ cents?

A Yes.

Q And you have, therefore, of course a gallonage which is very small but you have a pretty good margin there, from 15.5 to 22.5?

A Yes.

Q That is 7 cents, 7 cents, it is so small that you cannot tell very well what you are doing on that?

A No, we just recently put Ethyl into our pumps.

Q You certainly get a break on the other retailers, the other products you sell at 20 cents and that is not a purchase product, by the way you do buy some "Q"?

A Yes.

Q And what do you pay for "Q" when you buy it?

A 13 cents to the barrel.

Q So you have 7 cents on that too?

A Yes, the spread on the regular gasoline covers bulk sales as well.

Q It covers what "Q" you buy for your bulk?

A Yes.

Q You buy the "Q", do you buy any "Q" that goes into your bulk plants?

A Not very much. The quantity of bulk we buy is very small.

Q And then you put it into your pumps at the same price, they

will send a tank to your service station and charge you the same for it?

A No, that price is F.O.B. refinery.

Q And you take it away?

A Yes.

Q You take it away from the refinery?

A Yes.

Q Paying 13 cents for it, some of it you take to your retail outlets and some to your wholesale outlets indiscriminately?

A Yes.

Q Then the other product of course, is your own, this Richfield high octane you call it is your own and on that you maintain a spread of 20 cents you say. What I was really trying to get at is your view of the present dealer margin of 4½ cents in Calgary and what you thought about it. Are you able to say very much about whether it is enough or too much or just right?

A Well our dealer prices are generally higher than the average.

Q Are generally higher than the average?

A Yes.

Q It must be on your third grade and distillates then?

A Yes.

Q It is, is it not?

A Yes.

Q Now let us deal with that then. The price of 3rd structure gasoline in Calgary to dealers, and I mean on the Imperial list is 14 cents. You have not any, your bookkeeping does not show what you charge on your products out, what you

charge any of your products out to your bulk stations, do they?

A No.

Q No, would you let, you have no tank wagon price really?

A No, sir.

Q Well I think that is all, one general question, I suppose, you are a company that hopes to expand a great deal more?

A We have hopes.

Q So the answer to my last question is quite abvious, the question is whether you feel that the distribution of gasoline by retail in the province is sufficiently well looked after now, that no further licenses need be granted, what do you say about that?

A It seems to me that every time a license is granted so many more people are put to work and as long as that continues and they are paid, that should answer the question.

Q You think the general good is being served?

A Yes.

Q But it surely makes for duplication, there is a great deal of duplication in the province today, Mr. Becker?

A Yes.

Q But I presume you also say that if that were to be the policy, the licensing policy, you as a young company would never get any greater than you are now?

A Yes.

Q Because I suppose it would be difficult for you to go, have you looked at some other points in the province where you might like to establish combination stations?

A No.

Q Well you will, I suppose, reach that stage?

A We hope so.

Q You do not know of any point in the province now where you can go to, where you can truthfully say the public was not adequately served, could you, with retail outlets or wholesale?

A No, but we would consider they were not adequately served with our products.

Q Well they would not be served at all with your products, so that if that were the only, if that was to be the only consideration, why then there is not one, there are only three places in Alberta that are adequately served and that is what you contend, I suppose?

A It is.

Q Very well. I think that is all, Mr. Becker.

Q THE CHAIRMAN: Where do you get your crude oil?

A We are purchasing now from the Royalite Oil Company?

Q From the Royalite?

A Yes.

Q At what price?

A The field price plus 6 cents?

Q The field price plus 6 cents?

A Yes.

Q MR. FRAWLEY: Oh, what is the 6 cents, just what is the mechanism of the movement, where does it come from and where does it go?

A From one of the Royalite pumping stations to our plant.

Q It goes from one of the Royalite pumping stations, they have two, Longview and Royalties?

A Yes.

Q And it goes to, from there how does it get to your plant?

A Through our own pipe line.

Q Your pipe lines reach to their pumping stations?

A Yes.

Q They have permitted you to connect with, at some point at or near their pumping stations and then it goes to your own pipe line a distance of how far?

A Three quarters to a mile.

Q From three quarters of a mile to a mile?

A Yes.

Q And they charge you for that 6 cents?

A They charge us for the facilities for pumping at their station.

Q Well this 6 cents, you certainly pay for the oil but you pay 6 cents to the Royalite for services?

A Yes.

Q MAJOR LIPSETT: Does that cover anything except the pumping?

A No, sir.

Q MR. FRAWLEY: Now gathering, as my friend points out, it has first to be gathered by the Royalite system?

A Surely.

Q And brought to one of their pumping stations and then you take it off, after it has been gathered then it goes three quarters of a mile to a mile over to your plant?

A Yes.

Q So that what you are paying for is gathering and pumping the mile?

A Yes, and for the privilege.

Q THE CHAIRMAN: The field price, where is it, at the well or at the point to which is gathered?

A Generally speaking it is at the well.

MR. FRAWLEY: It is so described in the National Petroleum News, "F.O.B. field tankage".

THE CHAIRMAN: Well "field tankage" might mean well tankage and that might be of some importance. We have talked a lot about field prices, you might find out where it is, after it is gathered or before.

Q MR. COTTLE: The price is the price paid to the producer according to the posted field price by the Royalite?

A No, we pay a premium for the privilege of buying it at their stations.

Q I mean apart from the premium, the field price you pay is the price which the producer recieves?

A Yes.

THE CHAIRMAN: Is which?

MR. COTTLE: Is the price the producer receives.

MAJOR LIPSETT: At the well?

MR. COTTLE: At the well.

(Go to page 12,459)

Q MR. FRAWLEY: You pay that price to the Royalite of $1.20?

A Yes.

Q And you pay 6 cents more as a service charge to the Royalite Company for what I have described?

A Yes.

Q Gathering, storage at the pumping plant and sending through to your plant?

A Yes.

Q Have you any contract with them as to the amount you must take?

A No.

Q 1 barrel or 100, it is all the same?

A Yes.

Q At whose expense is the pumping done from the Royalite pumping plant to your plant?

A The Royalite Company takes the expense of pumping and we take the losses from the time it has left their tank.

Q The pipe line loss is your loss?

A Yes.

Q And the upkeep of this mile of line is your expense?

A Yes.

Q MR. COTTLE: The measurements are made then in the pumping station tankage and not in your tankage?

A Exactly.

Q MR. FRAWLEY: You are getting the pipe line run of crude?

A Yes.

Q So that you are now paying what?

A That depends on what we buy.

D. F. Becker.

Q On the gravity?

A Yes.

Q Have you any views on the propriety of the field price. Is it in your opinion too much or too little, Mr. Becker?

A I have not any views on that whatever.

Q You have never examined into the question of the cost of producing crude oil?

A No, Sir.

Q Or on the competitive value of crude oil?

A No, Sir.

Q You do not just blindly take crude oil. You could bring in crude----

A Not situated where our plant is, we cannot economically deal with any other field.

Q Why?

A To deal economically we would have to bring it in by large quantities, preferably by rail, and that point is not served by rail.

Q You have no trackage into your point at all?

A No.

Q You would have to truck it from High River or Okotoks?

A Yes, Sir.

Q Which you say puts it out of the question?

A Absolutely.

Q MR. COTTLE: Is it fair to say you are content to pay the posted field price so long as your competitors pay the same price?

A Absolutely.

Q That is your chief interest in the field price?

A Yes.

Q As a marketer or refiner it is of no concern to you, under your particular circumstances, what that price is so long as everyone else pays the same figure?

A Providing it stays reasonable, which it will, under competitors' conditions.

Q And providing you cannot get it cheaper anywhere else?

A Surely.

Q MR. FRAWLEY: You at one time had some production. Your company or companies you were associated with, or your father was associated with. I was wondering if you were able to give us any comparison in costs of the crude now as distinguished from the crude when you had some production of your own?

A Well, the difference will be distinctly just 6 cents.

Q It would be just 6 cents?

A Surely.

Q Before you made this arrangement with the Royalite, how did you get the crude to your refinery?

A We pumped it from one of the other wells.

Q You pumped from one of the other wells?

A Yes.

Q One of the National wells?

A Well, and from one of our own.

Q When you were pumping it from the National well, you paid the posted field price?

A Yes.

Q You had some pumping expense?

A No, the pumping expense was taken care of by them.

Q By them, without charge?

A Yes, Sir.

D. F. Becker.
L. L. Plotkins.

Q You were better off by 6 cents dealing with them. Why are you not dealing with them now?

A For some time their well was shut down, the one we were buying from, and we moved our pipe line.

Q Were you about the same distance from that well as you are now from the Royalite pumping station?

A Approximately.

Q You were just simply paying the posted field price?

A Yes.

Q Which means you were paying them something less than the posted field price?

A Yes. Of course, the cost of moving it was so small.

Q Then when you had your own production, have you any idea what your laid in cost was there?

A The same as from the National Pete.

Q Because the refinery bought it from the producing company?

A Yes.

Q You do not care to go back beyond that?

A No, Sir.

Q That is getting out of your province?

A Entirely.

Q That is all.

..... .

L. L. PLOTKINS, recalled:

Q MR. FRAWLEY: Now, Mr. Plotkins, Mr. Logie presented some figures and statements on refining this morning and stopped there?

A Yes.

Q I observed this morning you had a marketing brief. Do you want to file that now?

A Yes.

L. L. Plotkins.

Q This is a statement called "The Lion Oils Limited, Interim Report on Marketing Operations for 1938."

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "545".)

THE CHAIRMAN: Is there anything more to file?

Q MR. FRAWLEY: That is all there is to file this morning?

A Yes. Now, before I start reading this, I was informed by Mr. Logie that this morning in the course of the examination that he had, that he supplied you with the balance sheet of the Lion Refining Company. It came up in connection with the valuation of stocks, and Mr. Logie happened to have a copy with him. Now, I am very sorry that was filed. I want to give my reasons and ask the Board to consider these reasons and say if they see fit to return it. In my experience in this business ever since I started in and I started to know something about it in general, I have been very careful not to disclose to my competitors the true financial position. For reasons. The reasons are as follows. Ever since the first day I went into the oil business the Banks, the Bank Manager at Rockyford where I first started, the Bank Manager in Calgary when I first started dealing with them here, made it known to me that no money was available from the Banks to go into the oil business or to prosecute the oil business. And in my experience in dealing with the Maple Leaf and the Southern Alberta Oils and with a number of other companies that in the course of the last twenty years I have been connected with, I found that the major companies made it their business to know their financial position of any, especially of

the small competitors. I am going to produce evidence later on in this Enquiry to show what they do with that information. But the facts are that I have religiously refused to allow the reporting companies, such as Dunns and Bradstreets, and all the wholesalers with which we deal, to give them a copy of our financial balance sheet. Not that I am wanting to hide anything but because the minute our competitors and the major companies in particular know exactly where we stand and how much money we have to work with and how much money we owe, and where our capital comes from, they are at least in a better position and my experience is they are in a good position to do us damage in a competitive way. As long as we can keep them guessing as to what our resources are and what possibilities there is for us getting capital, they are not going to embark on any policy that may put us out of business and cost them a lot of money. What I mean by that is if they feel, for instance, our company has only a reserve of $100,000.00 and that with a certain price condition or a certain condition to our credit, or any other competitive condition, that we could only stand up for two months or three months, it might cause them to use the Maple Leaf, for instance, which is one of the companies they use to do for that purpose, to put the price down. To propose to our direct customers to such an extent that three months will wipe us out. Where otherwise, not knowing what amount of capital we might have or could get, it might cost them half a million dollars before they put us out of business, or before they got us to where we would want to listen to any

proposal they would make; for those reasons I would ask the Commission to return to me the balance sheet, and if there is anything in connection with the working of the company or my own personal workings, anything with the exception of how much capital we have and how we treat it and where we get it from, I am perfectly willing to go to any length to make it as intelligible and available. In connection with the balance sheet, the only people that know definitely where we stand is our auditors, which we have full confidence in, and the Bank. Now, the Bank have changed their policy with respect to our operations but only in a degree. They insisted that before they advance us any money, temporarily, that the assets we had were of no consequence and they insisted on personal guarantee, not only by myself but also by a number of persons who are responsible financially. So that no matter what situation arose they would not lose. On top of that, they wanted a full life insurance policy to the total amount under loan. I have in mind a letter that probably he should not have shown me, but the Bank Manager of the Imperial Bank in East Calgary showed me when I first started to deal with him. That letter was from the head office, the executive offices, and it said no matter what the circumstances were and no matter how good the thing looked, we could not exist very long in competition with the major companies, and it gave the reason. That letter was shown to me because the manager wanted to justify his conduct and that letter is no doubt available, although I do not know if it is of any consequence or if it is relevant. But that is the position. And the same

applies to Lion Oils Limited. I want to say something there. Lion Oils Limited is a private company. We do not give the Government even a balance sheet. We are not compelled to by law. Under the Private Companies Act we have not been submitting any financial information. We have purposely refrained from making any public issues or from putting ourselves in a position where we would have to give out this information. That is all I have to say and I certainly would like to ask the Commission to reconsider these representations with a view of deciding whether I should be given the balance sheet, or the document that was filed this morning.

MR. FRAWLEY: I must take the position, first of all, as Mr. Plotkins is on the stand, that when Mr. Logie was asked for it this morning there is nothing to be attached to that. I certainly would have requested Mr. Plotkins to file the balance sheet. Mr. Cottle asked me to obtain the balance sheet and whether Mr. Logie had it with him or not, in his portfolio, is a mere circumstance. I would have applied to Mr. Plotkins when he was on the stand to produce the balance sheet. In doing that I did what I did with the other two companies, such as the Great West Distributors, who are just as jealous of maintaining the privacy of their financial affairs as is Mr. Plotkins. If we want the balance sheet of the Imperial Oil - perhaps we have it already, because it is published and filed. I simply take the position if it is material matter, in asking for Mr. Plotkins' financial report it is not out of any caprice but only because, in our opinion, it is essential to properly understand the Exhibits which he has filed, and whether we got it in the

form of the document, Exhibit "543", or in answer to us questioning by Mr. Cottle, I submit, with respect, it is not of very great moment. It is the information contained there that Mr. Cottle desires to see so that he and Dr. Brown can properly appreciate and criticize and analyze the information which Mr. Logie filed this morning as Exhibit "542". Probably exactly the same thing applies with respect to the new Exhibit Mr. Plotkins has filed as Exhibit "545". After all, there are no restrictions whatever as to the power of this Commission to demand information and it seems to me in the very nature of things we cannot be content to permit Mr. Plotkins to keep to himself the information gained by his auditors.

THE CHAIRMAN: This is the information you have had from other companies?

MR. FRAWLEY: Quite.

A I observed that the Imperial, what they did, they just extracted certain information and said "This is the refining picture. We have so much capital invested. We have shown this and shown that and this is the profit and loss." They have done the same thihg with marketing. They have not brought here any capital structure or reserves and all the rest of it, and that gave particulars making up the balance sheet as comprehensive as that one is.

MR. FRAWLEY: Perhaps Mr. Cottle could tell the Commission what they have given us, and the nature of the information which they have given us.

THE CHAIRMAN: Check that up. I want to treat Mr. Plotkins precisely like everyone else. If he has given more in that document than you have required of

other companies it would seem reasonable that he should be allowed to make precisely the same sort of extraction that they have, if that be satisfactory to Commission accountant. If, on the other hand, the Commission accountant is not satisfied with anything less than the balance sheet and he has had it from all other companies,

MR. FRAWLEY: That is, he has asked it.

THE CHAIRMAN: Surely. I take it if he needs it from one he needs it from another. I mean that is a matter of checking up. We are not going to debate it now. We will be glad to hear from Mr. Cottle or yourself when you are here on Monday. We will discuss the matter then and decide one way or the other. In the meantime it is enough to say, Mr. Plotkins, so far as this Commission is concerned, you will be treated no better and no worse than anyone else. We want to get all the information, as you know. It is unfortunate if all the companies, including yours, have had to give information that I dare say they would prefer not to. Some of them have been not in the least anxious to give all the information that has been obtained here. It may be you will find yourself in the same boat. But all I want you to know is you will be treated the same, no better and no worse.

A That is all I ask, Sir, thanks.

(At this stage the Hearing was adjourned until 9;00 A. M. 31st July, 1939.)

::::::::::::::::::::